

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Oceana County Road Commission		County Oceana	
Fiscal Year End December 31, 2007		Opinion Date May 7, 2008		Date Audit Report Submitted to State May 15, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

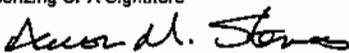
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- The local unit has adopted a budget for all required funds.
- A public hearing on the budget was held in accordance with State statute.
- The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- The local unit only holds deposits/investments that comply with statutory requirements.
- The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- The local unit is free of repeated comments from previous years.
- The audit opinion is UNQUALIFIED.
- The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- The board or council approves all invoices prior to payment as required by charter or statute.
- To our knowledge, bank reconciliations that were reviewed were performed timely.

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

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**Oceana County Road Commission
Hart, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Oceana County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Oceana County
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission, a component unit of Oceana County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 7, 2008, on our consideration of the Oceana County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oceana County Road Commission's basic financial statements. The Other Supplementary Information listed in the table of contents is presented 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 7, 2008

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Our discussion and analysis of Oceana County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended December 31, 2007. This annual report consists of a series of financial statements. The Statement 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 four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section that presents the operating fund broken down between primary, local, and county roads. The basic financial statements include two kinds of statements that present different views of the Oceana County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Oceana County 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.

Reporting the Oceana County Road Commission as a Whole

Government-Wide Statements

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. The Statement of Net Assets includes all of the Road Commission's 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 current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. 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 or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Oceana County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Fund Financial Statements

The Road Commission currently has two funds, the general operations fund and the pension fund. All of the Oceana County Road Commission's activities are accounted for in the general operations fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 20 and 21. The other supplementary information begins on page 22 and provides detailed information about the major fund.

Governmental funds focus 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 Oceana County 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 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 each fund level financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased from \$20,822,351 to \$21,162,606, for the year ended December 31, 2007. Beginning net assets were restated to retroactively recognize the historical cost and accumulated depreciation of capital assets on infrastructure of roads and bridges back to 1980 as mandated by GASB Statement No. 34. Beginning net assets were increased by \$12,853,616 in the governmental activities. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets increased by \$340,255 for 2007.

A comparison of net assets as of the years ended December 31, 2007 and 2006 follows:

	<u>2007</u>	<u>Restated 2006</u>
Current Assets	\$ 1,463,567	\$ 1,158,773
Capital Assets	<u>20,752,010</u>	<u>20,557,610</u>
TOTAL ASSETS	22,215,577	21,716,383
Current Liabilities	588,241	367,296
Noncurrent Liabilities	<u>464,730</u>	<u>526,736</u>
TOTAL LIABILITIES	1,052,971	894,032
Invested in capital assets, net of related debt	20,512,010	20,238,010
Restricted for County Roads	<u>650,596</u>	<u>584,341</u>
TOTAL NET ASSETS	<u>\$21,162,606</u>	<u>\$20,822,351</u>

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Changes in Net Assets

The following table presents comparison of changes in net assets between 2007 and 2006.

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 1,205,808	\$ 878,874
Operating grants & contributions	3,870,023	3,936,945
Capital grants & contributions	1,346,031	1,051,740
General Revenues		
Interest	19,623	70,124
Miscellaneous	-	67,858
Loss on disposal of capital assets	-	(746)
TOTAL REVENUES	<u>6,441,485</u>	<u>6,004,795</u>
Expenses		
Primary Roads	1,637,457	2,929,911
Local Roads	1,835,984	1,714,772
State Trunkline	1,101,727	883,220
Equipment - net	(290,364)	261,755
Administrative - net	282,605	389,824
Drains at large	1,633	-
Compensated absences	6,838	(35,008)
Infrastructure depreciation	1,512,130	309,019
Interest expense	13,220	22,853
TOTAL EXPENSES	<u>6,101,230</u>	<u>6,476,346</u>
DECREASE IN NET ASSETS	<u>\$ 340,255</u>	<u>\$(471,551)</u>

The Oceana County Road Commission's Fund Level Information

The Road Commission's general operating 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. For the year ended December 31, 2007, the fund balance of the general operating fund decreased \$80,967 as compared to a decrease of \$1,544,087 in the fund balance for the year ended December 31, 2006. Total operating revenues were \$6,289,325, an increase of \$283,784 as compared to last year. There was also an increase in charges for services due to the overall economy in the amount of \$328,150. Total expenditures were \$6,370,292, a decrease of \$1,179,336 as compared to last year.

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

A comparison of changes in the Operating Fund for the year ended December 31, 2007 and 2006 follows:

	<u>Operating Fund</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Licenses & Permits	\$ 12,984	\$ 14,200
Intergovernmental Grants	4,107,764	4,666,603
Contributions from local units	956,130	326,082
Charges for services	1,192,824	864,674
Interest & Rents	19,623	70,124
Other	<u>-</u>	<u>67,858</u>
TOTAL REVENUES	6,289,325	6,005,541
Expenditures		
Primary Road	1,887,094	3,905,721
Local Road	3,371,527	2,286,567
State Trunkline	1,101,727	883,220
Equipment - net	(203,097)	322,807
Administrative - net	282,605	363,139
Drains at large	1,633	-
Capital outlay	(165,917)	(310,066)
Debt Service	<u>94,720</u>	<u>98,240</u>
TOTAL EXPENDITURES	<u>6,370,292</u>	<u>7,549,628</u>
CHANGE IN NET ASSETS	(80,967)	(1,544,087)
FUND BALANCE - BEGINNING	<u>971,821</u>	<u>2,515,908</u>
FUND BALANCE - ENDING	<u>\$ 890,854</u>	<u>\$ 971,821</u>

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.

The actual revenue recognized during 2007 was lower than the final amended budget by \$112,741.

The actual expenditures recognized during 2007 were lower than the final amended budget by \$110,893. There were unfavorable variances in certain expenditure line items.

Oceana County Road Commission
 MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Capital Asset & Debt Administration

Capital Assets

As of December 31, 2007, the Road Commission has invested \$20,752,010 in net capital assets. This amount represents a net increase (including additions and deductions) of \$194,400 as follows:

	<u>2007</u>	<u>Restated 2006</u>
Capital Assets Not Being Depreciated		
Land & Improvements	\$ 62,094	\$ 62,094
Construction in progress	<u>63,898</u>	<u>-</u>
SUBTOTAL	125,992	62,094
Capital Assets Being Depreciated		
Buildings	1,686,839	1,686,839
Road Equipment	5,001,003	5,036,916
Shop Equipment	99,777	99,777
Office Equipment	37,518	37,518
Engineer Equipment	-	3,744
Infrastructure - Roads	25,801,676	35,304,197
Infrastructure - Bridges	<u>7,710,130</u>	<u>7,538,680</u>
SUBTOTAL	<u>40,336,943</u>	<u>49,707,671</u>
TOTAL CAPITAL ASSETS	40,462,935	49,769,765
TOTAL ACCUMULATED DEPRECIATION	<u>(19,710,925)</u>	<u>(29,212,155)</u>
TOTAL NET CAPITAL ASSETS	<u>\$20,752,010</u>	<u>\$20,557,610</u>

This year's major capital asset additions included the following:

Construction in progress	\$ 63,898
Infrastructure	
Bridges	171,450
Roads	<u>1,613,730</u>
TOTAL	<u>\$ 1,849,078</u>

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since 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. The Oceana County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission retroactively capitalized the major infrastructure assets on December 31, 2007, as permitted by GASB Statement No. 34.

There was no installment purchase agreements entered into during 2007.

During 2007, the Road Commission disposed of road equipment in the amount of \$35,913 and engineering equipment in the amount of \$3,744, all of which was fully depreciated.

Oceana County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Debt Administration

As of December 31, 2007, the Road Commission had \$240,000 in long-term bonds outstanding versus \$320,000 last year, a decrease of 25% as shown below.

	<u>12-31-06 Balance</u>	<u>2007 Payment</u>	<u>12-31-07 Balance</u>
Bonds Payable	<u>\$ 320,000</u>	<u>\$ 80,000</u>	<u>\$ 240,000</u>

During 2007 there was no new bonded debt.

Other obligations include accrued vacation pay and sick leave. As of December 31, 2007, the Road Commission has a \$387,785 outstanding debt related to accumulated unused vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the Financial Statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 50% of its revenues from the fuel tax collected. Using MDOT projections, it is estimated that the Road Commission will receive \$3,520,212 or about \$420,000 less in MTF revenues in 2008. During 2008 we will be completing a major road project that will increase our Federal and State revenues.

The above items were considered when adopting the budget for 2008.

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 the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Oceana County Road Commission's administrative offices at P.O. Box 112, Hart, MI 49420.

BASIC FINANCIAL STATEMENTS

Oceana County Road Commission

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 204,823
Accounts receivable	292
Due from other governmental units	
State	673,950
Local	356,434
Inventory	<u>228,068</u>
Total current assets	1,463,567
Noncurrent assets	
Capital assets, not being depreciated	125,992
Capital assets, net of accumulated depreciation	<u>20,626,018</u>
Total capital assets	<u>20,752,010</u>
TOTAL ASSETS	22,215,577
LIABILITIES	
Current liabilities	
Accounts payable	95,545
Accrued liabilities	50,642
Accrued interest payable	4,633
Deferred revenue	116,301
Current portion of compensated absences	241,120
Current portion of long-term debt	<u>80,000</u>
Total current liabilities	588,241
Noncurrent liabilities	
Advances	158,065
Noncurrent portion of compensated absences	146,665
Noncurrent portion of long-term debt	<u>160,000</u>
Total noncurrent liabilities	<u>464,730</u>
TOTAL LIABILITIES	<u>1,052,971</u>
NET ASSETS	
Invested in capital assets, net of related debt	20,512,010
Restricted for County Roads	<u>650,596</u>
TOTAL NET ASSETS	<u><u>\$ 21,162,606</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

	<u>Governmental Activities</u>
Program Expenses	
Primary Road	\$ 1,637,457
Local Road	1,835,984
State Trunkline	1,101,727
Equipment - net	(290,364)
Administrative - net	282,605
Drains at large	1,633
Compensated absences	6,838
Infrastructure depreciation	1,512,130
Interest expense	<u>13,220</u>
 TOTAL PROGRAM EXPENSES	 6,101,230
Program Revenues	
Charges for services	1,205,808
Operating grants and contributions	3,870,023
Capital grants and contributions	<u>1,346,031</u>
 TOTAL PROGRAM REVENUES	 <u>6,421,862</u>
 NET PROGRAM REVENUES	 320,632
General Revenues	
Interest	<u>19,623</u>
 CHANGE IN NET ASSETS	 340,255
Restated net assets, beginning of the year	<u>20,822,351</u>
Net assets, end of the year	<u><u>\$ 21,162,606</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission
GOVERNMENTAL FUND BALANCE SHEET

December 31, 2007

	<u>Governmental</u> <u>Fund Type</u> General <u>Operating Fund</u>
ASSETS	
Cash and cash equivalents	\$ 204,823
Accounts receivable	292
Due from other governmental units	
State of Michigan	673,950
Local	356,434
Inventory	<u>228,068</u>
TOTAL ASSETS	<u>\$ 1,463,567</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 95,545
Accrued liabilities	50,642
Deferred revenue	268,461
Advances	
State of Michigan	<u>158,065</u>
TOTAL LIABILITIES	572,713
FUND EQUITY	
Fund balance	
Reserved for inventory	228,068
Unreserved - undesignated	<u>662,786</u>
TOTAL FUND EQUITY	<u>890,854</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,463,567</u>

See accompanying notes to financial statements.

Oceana County Road Commission

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

December 31, 2007

Total fund balance - governmental fund **\$ 890,854**

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

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

The cost of capital assets is	\$ 40,462,935	
Accumulated depreciation is	<u>(19,710,925)</u>	
Capital assets, net		20,752,010

Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:

Deferred revenue		152,160
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist of:

Bond payable	(240,000)	
Accrued interest payable	(4,633)	
Compensated absences	<u>(387,785)</u>	
		<u>(632,418)</u>

Net assets of governmental activities **\$ 21,162,606**

See accompanying notes to financial statements.

Oceana County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2007

	Governmental Fund Type <u>General Operating Fund</u>
REVENUES	
Licenses and permits	\$ 12,984
Intergovernmental	5,063,894
Charges for services	1,192,824
Interest and rents	<u>19,623</u>
TOTAL REVENUES	6,289,325
EXPENDITURES	
Current	
Primary Road	1,887,094
Local Road	3,371,527
State Trunkline	1,101,727
Equipment - net	(203,097)
Administrative - net	282,605
Drains at large	1,633
Capital outlay - net	(165,917)
Debt Service	<u>94,720</u>
TOTAL EXPENDITURES	<u>6,370,292</u>
NET CHANGE IN FUND BALANCE	(80,967)
Fund balance, beginning of year	<u>971,821</u>
Fund balance, end of year	<u>\$ 890,854</u>

See accompanying notes to financial statements.

Oceana County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Net change in fund balance - governmental fund \$ (80,967)

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

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

Capital outlay	\$ 1,849,078
Depreciation expense	(142,548)
Infrastructure depreciation expense	<u>(1,512,130)</u>

Excess of capital outlay over depreciation expense	194,400
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	152,160
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Bond principal	80,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

Decrease in accrued interest payable	1,500
(Increase) in accrued compensated absences	<u>(6,838)</u>
	<u>(5,338)</u>

Change in net assets of governmental activities	\$ 340,255
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See accompanying notes to financial statements.

Oceana County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Pension Fund</u>
ASSETS	
Investments	<u>\$ 2,263,958</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 2,263,958</u>

See accompanying notes to financial statements.

Oceana County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2007

	<u>Pension Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 123,668
Investment earnings	
Interest and dividends	<u>79,146</u>
TOTAL ADDITIONS	202,814
DEDUCTIONS	
Benefits	69,145
Other	<u>50</u>
TOTAL DEDUCTIONS	<u>69,195</u>
CHANGE IN NET ASSETS	133,619
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>2,130,339</u>
End of year	<u><u>\$ 2,263,958</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Oceana County Road Commission (the "Commission") is a component unit of Oceana County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Oceana County and maintains over 1,160 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Oceana County Road Commission. The Commission is discretely presented in Oceana County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Hart, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

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

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

3. Measurement Focus

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

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

4. Basis of Accounting

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

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

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Commission's checking accounts, imprest cash, and certificates of deposit with an original maturity of 90 days or less.

Investments are reported at fair value. Investments consist of various Pension Fund securities.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items) are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Oceana County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. 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 since 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. The Oceana County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission retroactively capitalized the major infrastructure assets on December 31, 2007, as permitted by GASB Statement No. 34.

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

9. Long-Term Obligations

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

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

12. Estimates

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

13. Comparative Data

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

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Oceana County Treasurer's Office, and in order to make disbursements, the Oceana County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

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

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

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

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

The Commission's bank deposits at December 31, 2007, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 88,640	\$ 198,109
Certificates of Deposit	<u>115,983</u>	<u>115,983</u>
Total	<u>\$ 204,623</u>	<u>\$ 314,092</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2007, the Commission's accounts were insured in the amount of \$225,000 by the FDIC. The amount of \$89,092 was uninsured and uncollateralized. The cash captions on the basic financial statements include \$200 in imprest cash.

Investments

As of December 31, 2007, the Commission had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Uncategorized pooled investments		
Fixed	\$ 903,750	\$ 903,750
Safeco RST Multi-Cap Core	861,572	861,572
Safeco RST Core Equity	14,285	14,285
Templeton Growth Securities Fund	99,349	99,349
Mutual Shares Securities Fund	64,265	64,265
Safeco RST Growth Opportunities	91,112	91,112
Fidelity VIP Contrafund	110,363	110,363
AIM V.I. Real Estate Fund	12,332	12,332
Templeton Developing Markets Securities Fund	5,578	5,578
Franklin Small Growth Fund	20,630	20,630
Fidelity VIP Equity-Income	4,439	4,439
Fidelity VIP Growth & Income	21,301	21,301
Fidelity VIP Growth	797	797
Fidelity Growth	4,647	4,647
Fidelity VIP Mid Cap 2	40	40
DWS - Balanced	23,358	23,358
RST Bond	6,344	6,344
RST High Yield 2 Fund	6,090	6,090
RST Start 2 Fund	40	40
American Century IP 2	40	40
American Century International	427	427
American Century VP Balanced	3,132	3,132

Oceana County Road Commission
 NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Uncategorized pooled investments – continued		
ING Global	\$ 229	\$ 229
Fed Cap	760	760
PI Emerg2	930	930
JP Morgan Med. Cap	185	185
Franklin Income	7,233	7,233
Franklin Small Cap Value	<u>730</u>	<u>730</u>
	<u>\$ 2,263,958</u>	<u>\$ 2,263,958</u>

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

The Commission has not adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Commission has not adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission has not adopted a policy that indicates how the Commission will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: CAPITAL ASSETS

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

	<u>Restated Balance Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2007</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 62,094	\$ -	\$ -	\$ 62,094
Construction in progress	<u>-</u>	<u>63,898</u>	<u>-</u>	<u>63,898</u>
Subtotal	62,094	63,898	-0-	125,992

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CAPITAL ASSETS - CONTINUED

	Restated Balance <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2007</u>
Capital Assets Being Depreciated/Depleted				
Buildings	\$ 1,686,839	\$ -	\$ -	\$ 1,686,839
Equipment -				
Road	5,036,916	-	(35,913)	5,001,003
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	(3,744)	-0-
Infrastructure - roads	35,304,197	1,613,730	(11,116,251)	25,801,676
Infrastructure - bridges	<u>7,538,680</u>	<u>171,450</u>	<u>-</u>	<u>7,710,130</u>
Subtotal	49,707,671	1,785,180	(11,155,908)	40,336,943
Less Accumulated Depreciation/Depletion				
Buildings	576,466	29,965	-	606,431
Equipment				
Road	4,606,852	112,583	(35,913)	4,683,522
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	(3,744)	-0-
Infrastructure - roads	21,804,710	1,351,841	(11,116,251)	12,040,300
Infrastructure - bridges	<u>2,083,088</u>	<u>160,289</u>	<u>-</u>	<u>2,243,377</u>
Subtotal	<u>29,212,155</u>	<u>1,654,678</u>	<u>(11,155,908)</u>	<u>19,710,925</u>
Net Capital Assets Being Depreciated	<u>20,495,516</u>	<u>130,502</u>	<u>-0-</u>	<u>20,626,018</u>
Total Net Capital Assets	<u>\$20,557,610</u>	<u>\$ 194,400</u>	<u>\$ -0-</u>	<u>\$20,752,010</u>

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 116,607
Indirect Equipment	25,941
Infrastructure	<u>1,512,130</u>
	<u>\$ 1,654,678</u>

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D: LONG-TERM DEBT

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

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007	Amounts Due Within One Year
General Long-Term Debt					
2000 MTF Revenue Bonds	\$ 320,000	\$ -	\$ 80,000	\$ 240,000	\$ 80,000
Vacation and sick leave	<u>380,947</u>	<u>169,851</u>	<u>163,013</u>	<u>387,785</u>	<u>241,120</u>
	<u>\$ 700,947</u>	<u>\$ 169,851</u>	<u>\$ 243,013</u>	<u>\$ 627,785</u>	<u>\$ 321,120</u>

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

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

\$800,000 Michigan Transportation Fund Revenue Bonds, Series 2000 C, dated November 17, 2000, due in annual installments of \$80,000 through August 1, 2010, with interest ranging from 4.6 to 4.7 percent, payable semi-annually. \$ 240,000

Accumulated Vacation and Sick

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

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$241,120 and a long-term liability of \$146,665 at December 31, 2007.

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

Year Ending December 31,	Bond Payable		Total
	Principal	Interest	
2008	\$ 80,000	\$ 11,120	\$ 91,120
2009	80,000	7,440	87,440
2010	<u>80,000</u>	<u>3,760</u>	<u>83,760</u>
Total	<u>\$ 240,000</u>	<u>\$ 22,320</u>	<u>\$ 262,320</u>

NOTE E: FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2007, the Federal aid received and expended by the Road Commission was \$165,004 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if it expended \$500,000 or more for negotiated projects.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Oceana County Road Commission has a master defined contribution pension plan covering substantially all full-time employees. This defined contribution plan is administered through the Safeco Life Insurance Company.

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

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The plan requires the employer to contribute the equivalent of 6% of the participation employee's gross regular wages, with immediate vesting. Similarly, at least 5% of the employee's gross salary is to be contributed by the employee to the IRS Code Section 457 Plan. No pension provision changes occurred during the year that affected the required contributions to be made by the Road Commission or its employees.

Michigan Compiled Laws, Section 38.1121, authorizes the Road Commission to invest pension assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature and real or personal property. Specific limitations apply to the various investment types. The Road Commission's pension fund investments are in accordance with statutory authority. Investments are held by and purchased through Safeco Life Insurance Company.

NOTE G: CONTINGENT LIABILITIES

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

NOTE H: RISK MANAGEMENT

The Road Commission participates in a pool, the Michigan County Road Commission Self-Insurance Pool, with other municipalities, for claims relating to general liability, trunkline, excess liability, auto liability, errors and omissions and physical damage. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required.

The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

The Commission carries commercial insurance for the risk of loss due to directors' and officers' liability and tank storage.

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the Budgetary Comparison Schedules presented as Required Supplementary Information, the Oceana County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Oceana County Road Commission has been adopted the activity level for the General Operating Fund.

	<u>Amended Amounts Appropriated</u>	<u>Actual Amounts Expended</u>	<u>Variance</u>
Primary Road			
Construction - capacity improvements	\$ -	\$ 2,084	\$ 2,084
Routine and preventative maintenance	1,580,510	1,637,457	56,947
Local Road			
Construction - capacity improvements	-	1,861	1,861
Preservation - structural improvements	1,528,479	1,533,682	5,203
Routine and preventative maintenance	1,570,545	1,835,984	265,439
State Trunkline			
Maintenance	1,087,328	1,101,727	14,399
Equipment			
Direct	587,762	695,037	107,275
Indirect	420,454	431,735	11,281
Administration	332,609	415,010	82,401
Capital outlay			
Depreciation and depletion	(295,000)	(187,186)	107,814

NOTE J: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following is the fund balance reserve as of December 31, 2007:

General Operating Fund	
Reserved for inventory	<u>\$ 228,068</u>

NOTE K: POST-EMPLOYMENT BENEFITS

In accordance with the union agreement and personnel policy, effective January 1, 1996, upon retirement each employee will be eligible for continuation of subscriber health insurance. Between the age of 62 and 65, the Road Commission will pay 100% of the subscriber benefit. This benefit will expire upon reaching the age of 65. After age 65, for health insurance to continue the employee is required to pay 100% of the premium amount applicable to their coverage on a monthly basis to the Road Commission. The Road Commission remits the full premium to the insurance carrier. The total cost was \$126,124 and the amount reimbursed by retirees was \$60,602 with a net cost to the Road Commission of \$65,522. During the year ended December 31, 2007, 5 retirees between the age of 62 and 65 were receiving benefits. The Road Commission's policy is to finance these benefits on a pay as you go basis.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE K: POST-EMPLOYMENT BENEFITS - CONTINUED

Life Insurance

The Road Commission has purchased term life insurance for almost all full time employees, per the union agreement and personnel policy. Upon retirement, the insurance continues at a lower rate of coverage according to the following:

Retired while under age 70	\$ 3,000
Retired while age 70 to 74	2,500
Retired while age 75 to 79	1,500
Retired at age 80 and above	1,000

For the year ended December 31, 2007, the Road Commission paid life insurance premiums for 20 retirees totaling \$795.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

NOTE L: RESTATED NET ASSETS

Beginning net assets were restated to retroactively restate the historical cost and accumulated depreciation of capital assets on infrastructure of roads and bridges back to 1980 as mandated by GASB Statement No. 34. Beginning net assets were increased by \$12,853,616 in the governmental activities.

REQUIRED SUPPLEMENTARY INFORMATION

Oceana County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 12,500	\$ 11,949	\$ 12,984	\$ 1,035
Intergovernmental				
Federal sources				
Economic development "D" funds	307,000	300,000	70,177	(229,823)
Critical bridge	424,500	-	85,128	85,128
Surface transportation program	75,000	75,000	-	(75,000)
Other MDNR	150,000	126,000	9,699	(116,301)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	1,864,680	1,917,520	2,193,528	276,008
Local road	1,518,032	1,518,030	1,539,631	21,601
Snow removal	127,500	126,863	126,864	1
Oceana turn-back	275,000	238,892	-	(238,892)
Economic Development Funds				
Rural primary "D" funds	-	-	8,380	8,380
Forest road	48,500	48,396	48,396	-0-
Other				
State critical bridge	47,500	-	15,961	15,961
Local sources				
Township contributions	1,050,000	818,521	956,130	137,609
Other contributions	15,000	-	-	-0-
Total intergovernmental	5,912,712	5,179,222	5,063,894	(115,328)
Charges for services				
State Trunkline maintenance	844,000	1,058,785	1,192,824	134,039
State Trunkline non-maintenance	55,000	-	-	-0-
Salvage sales	35,000	-	-	-0-
Total charges for services	934,000	1,058,785	1,192,824	134,039
Interest	15,000	19,307	19,623	316
Other				
Refunds	450	595	-	(595)
Miscellaneous	-	132,208	-	(132,208)
Total other	450	132,803	-0-	(132,803)
TOTAL REVENUES	\$ 6,874,662	\$ 6,402,066	\$ 6,289,325	\$ (112,741)

Oceana County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Construction - capacity improvements	\$ -	\$ -	\$ 2,084	\$ (2,084)
Preservation - structural improvements	1,825,000	587,199	247,553	339,646
Routine and preventative maintenance	1,050,000	1,580,510	1,637,457	(56,947)
Total primary road	2,875,000	2,167,709	1,887,094	280,615
Local road				
Construction - capacity improvements	-	-	1,861	(1,861)
Preservation - structural improvements	1,607,000	1,528,479	1,533,682	(5,203)
Routine and preventative maintenance	1,146,000	1,570,545	1,835,984	(265,439)
Total local road	2,753,000	3,099,024	3,371,527	(272,503)
State Trunkline Maintenance	899,000	1,087,328	1,101,727	(14,399)
Equipment				
Direct	420,000	587,762	695,037	(107,275)
Indirect	310,000	420,454	431,735	(11,281)
Operating	410,000	446,641	323,184	123,457
Less: Equipment rental	(960,000)	(1,604,857)	(1,653,053)	48,196
Total equipment	180,000	(150,000)	(203,097)	53,097
Administrative Administration	130,000	332,609	415,010	(82,401)
Less:				
Handling charges	-	-	(25,068)	25,068
Overhead state	-	-	(105,862)	105,862
Purchase discount	-	-	(532)	532
Other	-	-	(943)	943
Total administrative	130,000	332,609	282,605	50,004
Drains at large Drain assessment	15,000	1,633	1,633	-0-
Capital outlay				
Capital outlay	260,000	37,815	21,269	16,546
Less:				
Depreciation and depletion	(294,000)	(295,000)	(187,186)	(107,814)
Total capital outlay	(34,000)	(257,185)	(165,917)	(91,268)
Debt service				
Principal payments	93,750	80,000	80,000	-0-
Interest payments	25,000	14,720	14,720	-0-
Total debt service	118,750	94,720	94,720	-0-
Contingency	107,912	105,347	-	105,347
TOTAL EXPENDITURES	\$ 7,044,662	\$ 6,481,185	\$ 6,370,292	\$ 110,893

OTHER SUPPLEMENTARY INFORMATION

Oceana County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2007

TOTAL REVENUES	\$ 6,289,325
TOTAL EXPENDITURES	<u>6,370,292</u>
NET CHANGE IN FUND BALANCE	(80,967)
Fund balance, beginning of year	<u>971,821</u>
Fund balance, end of year	<u><u>\$ 890,854</u></u>

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 2,298,623	\$ 2,784,894	\$ 1,205,808	\$ 6,289,325
TOTAL EXPENDITURES	<u>1,836,547</u>	<u>3,441,877</u>	<u>1,091,868</u>	<u>6,370,292</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	462,076	(656,983)	113,940	(80,967)
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	658,000	-	658,000
Optional transfers out	<u>(658,000)</u>	<u>-</u>	<u>-</u>	<u>(658,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(658,000)</u>	<u>658,000</u>	<u>-0-</u>	<u>-0-</u>
NET CHANGE IN FUND BALANCE	(195,924)	1,017	113,940	(80,967)
Fund balance (deficit), beginning of year	<u>1,369,154</u>	<u>(447,607)</u>	<u>50,274</u>	<u>971,821</u>
Fund balance (deficit), end of year	<u>\$ 1,173,230</u>	<u>\$ (446,590)</u>	<u>\$ 164,214</u>	<u>\$ 890,854</u>

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 12,984	\$ 12,984
Intergovernmental				
Federal sources	79,876	85,128	-	165,004
State sources	2,207,596	1,735,164	-	3,942,760
Local sources	-	956,130	-	956,130
Total intergovernmental	2,287,472	2,776,422	-0-	5,063,894
Charges for services				
State Trunkline				
Direct charges	-	-	1,192,824	1,192,824
Interest	11,151	8,472	-	19,623
TOTAL REVENUES	\$ 2,298,623	\$ 2,784,894	\$ 1,205,808	\$ 6,289,325

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Construction - capacity improvements	\$ 2,084	\$ 1,861	\$ -	\$ 3,945
Preservation - structural improvements	247,553	1,533,682	-	1,781,235
Routine and preventative maintenance	1,637,457	1,835,984	-	3,473,441
State Trunkline	-	-	1,101,727	1,101,727
Equipment Expense - Net	(46,712)	(111,236)	(45,149)	(203,097)
Administrative Expense - Net	101,415	181,190	-	282,605
Drains at large	1,237	396	-	1,633
Capital Outlay - Net	(106,487)	-	(59,430)	(165,917)
Debt Service	-	-	94,720	94,720
	<u>\$ 1,836,547</u>	<u>\$ 3,441,877</u>	<u>\$ 1,091,868</u>	<u>\$ 6,370,292</u>
TOTAL EXPENDITURES				

Oceana County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2007

	Restated Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 62,094	\$ -	\$ -	\$ 62,094
Construction in progress	-	63,898	-	63,898
Subtotal	62,094	63,898	-0-	125,992
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	1,686,839	-	-	1,686,839
Equipment				
Road	5,036,916	-	35,913	5,001,003
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	3,744	-0-
Infrastructure - Roads	35,304,197	1,613,730	11,116,251	25,801,676
Infrastructure - Bridges	7,538,680	171,450	-	7,710,130
Subtotal	49,707,671	1,785,180	11,155,908	40,336,943
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	576,466	29,965	-	606,431
Equipment				
Road	4,606,852	112,583	35,913	4,683,522
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	3,744	-0-
Infrastructure - Roads	21,804,710	1,351,841	11,116,251	12,040,300
Infrastructure - Bridges	2,083,088	160,289	-	2,243,377
Subtotal	29,212,155	1,654,678	11,155,908	19,710,925
Net Capital Assets Being Depreciated	20,495,516	130,502	-0-	20,626,018
Total Net Capital Assets	<u>\$ 20,557,610</u>	<u>\$ 194,400</u>	<u>\$ -0-</u>	<u>\$ 20,752,010</u>

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

Board of County Road Commissioners
Oceana County
Hart, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated May 7, 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 Oceana County Road Commission's internal control over financial reporting 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 Oceana County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oceana County Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oceana County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Oceana County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Oceana County Road Commission's internal control. We consider the deficiencies described as 2007-1, 2007-2, and 2007-3 in the accompanying schedule of findings and responses 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 Oceana County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oceana County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as 2007-4 and 2007-5.

We noted certain matters that we reported to the management of Oceana County Road Commission in a separate letter dated May 7, 2008.

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

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 7, 2008

Oceana County Road Commission
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2007

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements

2007-1 Material Journal Entries

Condition: Material journal entries for the adjustment of deferred revenue were proposed by the auditors. These misstatements were not detected by the Commission's internal control over financial reporting. By definition, independent auditors cannot be part of the government's internal controls.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Responsibility for the financial statements of the Commission rests with the Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting). The auditor cannot be a part of internal controls.

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

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

Corrective Action Response: Management is reviewing the available options that require no adjustments to Journal entries within the audit process. At the present time adding overhead costs may not be in the best interest of the Road Commission.

2007-2 Preparation of Financial Statements in accordance with GAAP

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Responsibility for the financial statements of the Commission rests with the Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting). The auditor cannot be a part of internal controls.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Commission's annual financial statements and notes to the financial statements in accordance with GAAP. The Commission relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Oceana County Road Commission

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year Ended December 31, 2007

FINDINGS/NONCOMPLIANCE - CONTINUED

Reportable Conditions Related to Internal Control Over the Financial Statements - continued

2007-2 Preparation of Financial Statements in accordance with GAAP - continued

Recommendation: We recommend the Commission consider obtaining proper training for the appropriate members of the Commission's administration to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the Commission's administration to be able to accept responsibility for the amounts and disclosures included in the Commission's financial statements.

Corrective Action Response: Management will continue to research the methods capable of meeting the new standards of the G.A.A.P. At this time the benefit of meeting those new standards do not justify the associated costs.

2007-3 Documentation of Authorized Pay Rates

Condition: During our analysis of the Commission's payroll process, we noted that the Commission does not have a formal system to document pay rates for non-union employees and that time cards for non-union employees are not reviewed and approved prior to payment. During our review of the Board minutes, we noted that the Commission only approves a percentage raise from the prior year, instead of actual amounts.

For one (1) out of ten (10) employees selected, we noted that the individual received a 1.27% pay raise from 2006 as approved in the Commissions minutes. However, we were unable to verify the pay rate at the end of 2006. The individual had received two (2) pay increases during 2006, and we were unable to verify if they were approved.

Criteria: Since the Commission is established pursuant to the County Road Law (MCL 224.1) and operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission, all pay rates for non-union employees should be approved by the Board of the County Road Commission.

Effect: The non-union employees may be being paid at a pay rate other than what was authorized by the Board. Also, since the time cards are not approved, the non-union employees may be being paid for an incorrect number of hours.

Recommendation: We recommend that the Board formally approve a pay rate for each non-union employee and that approval be documented in writing. Additionally, we recommend that time cards for non-union employees be reviewed and approved by the managing Director prior to payment. The approval should be indicated by signing or initialing each time card.

Corrective Action Response: Management feels this item is of considerable concern and was unaware a problem existed until this audit. Management will include all non-union staff and wage rate reviews into its annual personnel review. Management will include in its recommendation for wage rate change each year, the current wage and benefits to the board for review.

Findings Related to Compliance with Requirements Applicable to the Financial Statements

2007-4 Late Amendment of the Original Budget and Unfavorable Budget Variances

Condition: During our review of the Road Commission's compliance with the budgeting act, we noted that the Commission amended the original adopted budget after the year end. We also noted that expenditures had exceeded the amounts appropriated for various activities. This issue was noted and reported in our audit comments last year.

Oceana County Road Commission

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year Ended December 31, 2007

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to the Financial Statements - continued

2007-4 Late Amendment of the Original Budget and Unfavorable Budget Variances - continued

Criteria: The Uniform Budgeting and Accounting Act requires the Commission to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The Oceana County Road Commission adopted the budget for the General Operating Fund at the activity level. Having unfavorable budget variances as described above, the Commission is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the Board of Commissioners monitor budgeted expenditures against actual expenditures on a more frequent basis and amend the original adopted budget to alleviate future unfavorable budget variances in a timely manner.

Corrective Action Response: Management will encourage the board to include in the minutes any changes found to the budget when it is reviewed each month. Management will also research how to separate out the specific apportionment for each project and piece of equipment from the large amounts of benefit costs. It is understood these variances occur even when using the Michigan Department of Transportation method of apportionment.

2007-5 Procurement of Capital Assets

Condition: During our review of capital assets, we noted that a hoist was purchased in October 2007 for approximately \$29,695. The Road Commission did not go through a formal process of obtaining competitive bids for this equipment.

Criteria: Pursuant to the Uniform Accounting Procedures Manual of County Road Commissions (Revised September 2006), and in accordance with MCL 224.10, county road commissions are required to obtain competitive bids for purchases greater than \$15,000.

Effect: The Road Commission did not comply with MCL 224.10.

Recommendation: We recommend that all purchases that exceed \$15,000 be subject to a formal bidding process.

Corrective Action Response: Management makes every effort to bid any item that appears to be greater than \$15,000. The instance found is a hoist added to the contract bid on September 12, 2006, awarded September 13, 2006, and included a \$12,869 difference between the two eligible bidders. When advertised all bidders were informed both hoists were in need of replacement and the award could include another hoist. Before the first hoist was complete it became apparent a hoist would be needed. The low and proven bidder was then requested to add to the contract another hoist with the same specifications and costs as in the 2006 specifications, bid and award.

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MANAGEMENT LETTER

Board of County Road Commissioners
Oceana County
Hart, Michigan

Dear Gentlemen:

As you know, we have recently completed our audit of the records of Oceana County Road Commission for the year ended December 31, 2007. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Road Commission should review the status of individual fund balances (deficits) near year-end.

As noted in the Analysis of Changes in Fund Balance included as other supplementary information to the basic financial statements, the Local Road Fund portion of total fund balance ended the year in a deficit financial position. This issue was noted for the Local Road and County Road Fund portions of total fund balance and reported in our audit comments last year.

We suggest the Road Commission closely monitor Primary Road, Local Road, and County Road fund spending, review the status of individual funds near year-end, and make appropriate adjustments when possible to eliminate deficits. The Road Commission should take corrective action to increase revenues and/or decrease expenditures in order to strengthen the financial condition of the Road Commission.

2. The Road Commission should consider funding the liability for accrued compensated absences.

During the course of the audit, we noted that the Road Commission has a growing long-term liability for accrued compensated absences. Management estimates that approximately 50% of the workforce will retire within the next 10 years. These potential retirees have significant balances of accrued compensated absences. In the event that several employees retire in the same year, a large expenditure will be incurred, negatively impacting cash flow as well as fund balance. This issue was noted and reported in our audit comments last year.

We suggest that the Board of Commissioners consider designating a portion of fund balance to earmark funds to ensure funding is available when retirements occur.

3. Management and the Board of Commissioners should be aware of the requirements of GASB Statement No. 45.

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions, such as life insurance). Implementing this accounting standard will cause the financial statements to recognize the cost of providing retiree health care coverage and other benefits over the working life of the employee, rather than at the time the premiums are paid. This pronouncement is effective for the Oceana County Road Commission for the year ending December 31, 2008.

3. Management and the Board of Commissioners should be aware of the requirements of GASB Statement No. 45 - continued.

One of the most significant requirements of GASB Statement No. 45 is the inclusion of certain actuarial information in the notes to the financial statements that is not required or disclosed for the current or past fiscal years. A Schedule of Funding Progress will be required that will disclose funding progress in relation to the Annual Required Contribution, or ARC. The ARC will be calculated annually by an actuary and will be composed of two components: required contributions for current employee service and required contributions for past employee service. Calculation of the ARC requires an amortization period of past service cost of no longer than thirty (30) years.

The Road Commission will be required by GASB Statement No. 45 to recognize in its government-wide financial statements an asset or liability for any excess or deficiency of contributions to the other post-employment benefits plan over or under the ARC.

We would like management and the Board of Commissioners to be aware of this upcoming change and also suggest that discussions be held to initiate the planning process for implementing this new standard.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the component unit financial statements, and this report does not affect our report on the component unit financial statements, dated May 7, 2008.

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

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 7, 2008