

# Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

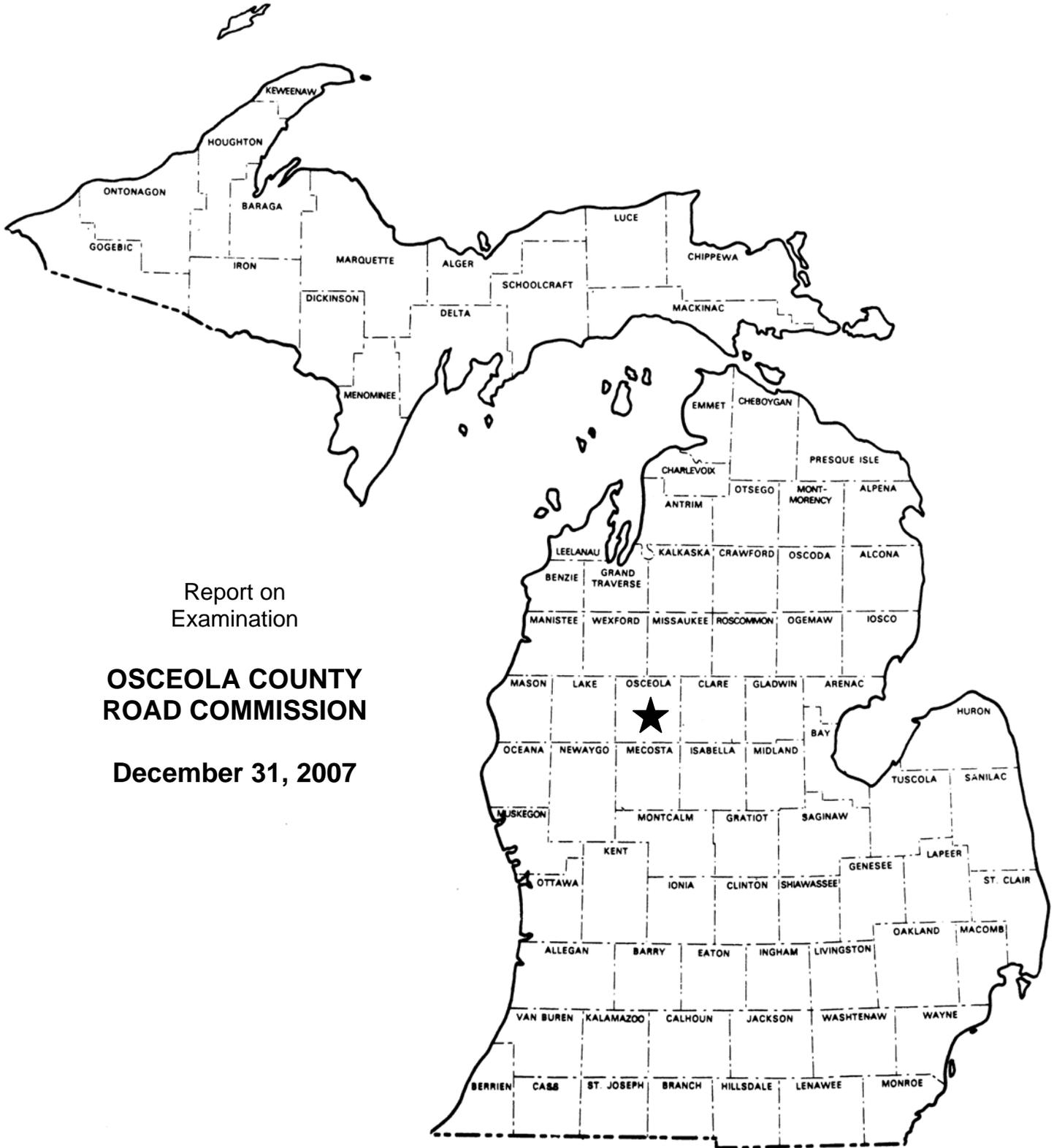
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature		Printed Name		License Number

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



Report on  
Examination

**OSCEOLA COUNTY  
ROAD COMMISSION**

**December 31, 2007**

OSCEOLA COUNTY ROAD COMMISSION  
BOARD OF ROAD COMMISSIONERS

Donald Lewis  
Chairman

Stanley Gregory  
Vice Chairman

John Atkins  
Member

William Huss  
Clerk

Cliff Youngs  
Engineer/Manager

COUNTY POPULATION--2000  
23,197

STATE EQUALIZED VALUATION--2007  
\$980,034,872



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

April 3, 2008

Osceola County Road Commission  
Board of County Road Commissioners  
4737 Makwa Drive  
Hersey, Michigan 49639

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Osceola County Road Commission, a component unit of Osceola County, Michigan, as of and for the year ended December 31, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Osceola County Road Commission, as of December 31, 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 April 3, 2008, on our consideration of the Osceola County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 8 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 Osceola 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

**OSCEOLA COUNTY ROAD COMMISSION**

**TABLE OF CONTENTS**

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	1
<b>BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS</b>	
EXHIBIT A--Statement of Net Assets .....	9
EXHIBIT B--Statement of Activities .....	10
EXHIBIT C--Balance Sheet .....	11
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets .....	12
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance.....	13
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statements of Activities.....	14
NOTES TO FINANCIAL STATEMENTS.....	15
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
EXHIBIT G--Schedule of Revenues and Other Financing Sources Budgetary Comparison Schedule .....	29
EXHIBIT H--Schedule of Expenditures--Budget and Actual Budgetary Comparison Schedule .....	30
<b>SUPPLEMENTAL SCHEDULES</b>	
EXHIBIT I--Analysis of Changes in Fund Balances.....	31
EXHIBIT J--Analysis of Revenues and Other Financing Sources.....	32
EXHIBIT K--Analysis of Expenditures .....	33
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 <u>Government Auditing Standards</u> .....	34
Comments and Recommendations.....	36

# OSCEOLA COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Osceola County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar 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 provides information about the activities of the Road Commission and present a longer-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 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. "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 Road Commission as a Whole*

#### Government-Wide Statements

The Statement of Net Assets and the Statement of Activities reports 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.

# OSCEOLA COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements 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 access the overall health of the Road Commission you need to consider 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.

### Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's major fund begins below. The fund financial statements begin on page 9 and provide 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 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.

### *Financial Analysis of the Road Commission as a Whole*

The Road Commission's net assets increased approximately 20.41%, or \$2,345,318, from \$11,492,857 to \$13,838,175 for the year ended December 31, 2007. 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 authorizes 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 assets invested in capital assets-net of related debt) are considered restricted.

# OSCEOLA COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The restricted net assets increased by \$360,018 during 2007. The primary reason for the change was an increase in Federal and State revenue received for road projects.

The investment in capital assets-net of related debt increased by \$1,985,300. The increase in net assets is primarily the result of reporting infrastructure of \$2,500,377 for the year 2007. The depreciation for the current year's infrastructure will be depreciated in the subsequent year.

Net assets as of year ended December 31, 2007 are as follows:

	<u>2006</u>	<u>2007</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 1,457,550	\$ 1,667,104	\$ 209,554	14.38%
Capital Assets	<u>14,420,320</u>	<u>16,407,976</u>	<u>1,987,656</u>	<u>13.78%</u>
Total Assets	<u>15,877,870</u>	<u>18,075,080</u>	<u>2,197,210</u>	<u>13.84%</u>
Liabilities				
Current	227,342	122,409	(104,933)	-46.16%
Noncurrent	<u>4,157,671</u>	<u>4,114,496</u>	<u>(43,175)</u>	<u>-1.04%</u>
Total Liabilities	<u>4,385,013</u>	<u>4,236,905</u>	<u>(148,108)</u>	<u>-3.38%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	10,530,775	12,516,075	1,985,300	18.85%
Restricted	<u>962,082</u>	<u>1,322,100</u>	<u>360,018</u>	<u>37.42%</u>
Total Net Assets	<u>\$ 11,492,857</u>	<u>\$ 13,838,175</u>	<u>\$ 2,345,318</u>	<u>20.41%</u>

## OSCEOLA COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2007 are as follows:

	<u>Governmental Activities</u>		<u>Variance</u>	<u>%</u>
	<u>2006</u>	<u>2007</u>		
Program Revenue				
License and Permits	\$ 11,125	\$ 10,225	\$ (900)	-8.09%
Federal Grants	90,331	833,235	742,904	100.00%
State Grants	3,769,721	4,216,664	446,943	11.86%
Contributions From Local Units	438,172	562,144	123,972	28.29%
Investment Earnings	37,589	33,471	(4,118)	-10.96%
Charges for Services	4,715	20,211	15,496	328.65%
Donations From Private Sources	3,725	52,767	49,042	1316.56%
General Revenue				
Gain on Equipment Disposal	514,343	187,399	(326,944)	-63.57%
<b>Total Revenue</b>	<b><u>4,869,721</u></b>	<b><u>5,916,116</u></b>	<b><u>1,046,395</u></b>	<b><u>21.49%</u></b>
Expenses				
Public Works	3,602,125	3,402,815	199,310	5.53%
Interest Expense	173,975	167,983	5,992	3.44%
<b>Total Expenses</b>	<b><u>3,776,100</u></b>	<b><u>3,570,798</u></b>	<b><u>205,302</u></b>	<b><u>5.44%</u></b>
<b>Increase in Net Assets</b>	<b>1,093,621</b>	<b>2,345,318</b>	<b>1,251,697</b>	<b>114.45%</b>
<b>Beginning Net Assets</b>	<b><u>10,399,236</u></b>	<b><u>11,492,857</u></b>	<b><u>1,093,621</u></b>	<b><u>10.52%</u></b>
<b>Ending Net Assets</b>	<b><u><u>\$ 11,492,857</u></u></b>	<b><u><u>\$ 13,838,175</u></u></b>	<b><u><u>\$ 2,345,318</u></u></b>	<b><u><u>20.41%</u></u></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.

For the year ended December 31, 2007, the fund balance of the General Operations Fund increased \$314,487 as compared to a decrease of \$294,691 in the fund balance for the year ended December 31, 2006. Total revenues were \$5,916,116, an increase of \$1,046,396 as compared to last year. This increase in revenues resulted primarily from the receipt of Federal and State grants for road and critical bridge projects. Total expenditures were \$5,851,630, an increase of \$687,219 as compared to last year. The increase in expenditures again is due primarily to the significant increase in road projects funded through the grants.

## OSCEOLA COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission Board strives to hold a fund balance that allows for as many dollars as possible to be expended on road maintenance while also holding the balance where there is an environment for the smooth financial operations of the Road Commission.

A summary of changes in the Operating Fund are as follows:

	12/31/06 Operating Fund	12/31/07 Operating Fund	Favorable (Unfavorable) Variance	Variance %
<b>Revenues</b>				
License and Permits	\$ 11,125	\$ 10,225	\$ (900)	-8.09%
Federal Grants	90,331	833,235	742,904	822.42%
State Grants	3,769,721	4,216,664	446,943	11.86%
Contributions From Local Units	438,172	562,144	123,972	28.29%
Charges for Services	4,715	20,211	15,496	328.65%
Interest and Rents	37,588	33,471	(4,117)	-10.95%
Other Revenue	518,068	240,166	(277,902)	-53.64%
<b>Total Revenues</b>	<b>4,869,720</b>	<b>5,916,116</b>	<b>1,046,396</b>	<b>21.49%</b>
<b>Expenditures</b>				
Public Works	4,079,619	4,915,772	(836,153)	-20.50%
Capital Outlay	737,818	520,230	217,588	29.49%
Debt Service	346,974	415,628	(68,654)	-19.79%
<b>Total Expenditures</b>	<b>5,164,411</b>	<b>5,851,630</b>	<b>(687,219)</b>	<b>-13.31%</b>
<b>Excess of Expenditures Over Revenues</b>	<b>(294,691)</b>	<b>64,486</b>	<b>359,177</b>	<b>121.88%</b>
<b>Other Financing Sources</b>				
Proceeds From Lease	-	250,000	250,000	0.00%
<b>Total Other Financing Sources</b>	<b>-</b>	<b>250,000</b>	<b>250,000</b>	<b>100.00%</b>
<b>Excess of Revenues and Other Financing Sources Over Expenditures</b>	<b>(294,691)</b>	<b>314,486</b>	<b>609,177</b>	<b>206.72%</b>
<b>Fund Balance--Beginning</b>	<b>1,524,899</b>	<b>1,230,209</b>	<b>(294,690)</b>	<b>-19.33%</b>
<b>Fund Balance--Ending</b>	<b>\$ 1,230,209</b>	<b>\$ 1,544,695</b>	<b>\$ 314,487</b>	<b>25.56%</b>

#### *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.

**OSCEOLA COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The final amended revenue budget for 2007 was \$496,000 or 8% more than the original budget. The primary reasons were the increase in township contributions that were unknown at the beginning of the 2007 year, installment purchase proceeds for new equipment and recognized gains and retirement of equipment disposed of in 2007. Actual revenue recognized during 2007 was \$14,116 more than the final amended budget.

The final amended expenditure budget for 2007 was \$55,550 more than the original budget. Some reasons for the increase were the net effect of projects scheduled but not constructed in 2007 and an increase in capital outlay. Actual expenses recognized during 2007 were \$69,720 less than the final amended budget.

*Capital Asset and Debt Administration*

Capital Assets

As of December 31, 2007, the Road Commission had invested \$16,407,976 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,987,656 or 13.78% as follows:

	2006	2007	Total Percentage Change 2006/07
Capital Assets Not being Depreciated			
Land and Improvements	\$ 65,662	\$ 65,662	0.00%
Infrastructure Land Improvements	<u>5,470,602</u>	<u>5,654,653</u>	<u>3.36%</u>
Subtotal	<u>5,536,264</u>	<u>5,720,315</u>	<u>3.32%</u>
Capital Assets Being Depreciated			
Buildings	4,577,163	4,586,163	0.20%
Equipment	5,720,638	5,624,758	-1.68%
Depletable Assets	226,825	226,825	0.00%
Infrastructure	<u>3,849,266</u>	<u>6,165,593</u>	<u>60.18%</u>
Subtotal	<u>14,373,892</u>	<u>16,603,339</u>	<u>15.51%</u>
Total Capital Assets	<u>19,910,156</u>	<u>22,323,654</u>	<u>12.12%</u>
Total Accumulated Depreciation	<u>(5,489,836)</u>	<u>(5,915,678)</u>	<u>7.76%</u>
Total Net Capital Assets	<u>\$ 14,420,320</u>	<u>\$ 16,407,976</u>	<u>13.78%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,500,377. The infrastructure recorded, during 2007, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

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

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

Reconstruction of Bridges (by Location)	\$ 1,628,512
Various Resurfacing Projects and Related Land/Right-of-Way	871,865
Buildings	9,000
Trucks/Equipment	493,730
Shop/Office Equipment	<u>17,500</u>
 Total Additions	 <u><u>\$ 3,020,607</u></u>

The Road Commission entered into one new installment purchase agreement for new road equipment in the amount of \$250,000. All other equipment was acquired with Road Commission funds. During 2007, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$607,110, related depreciation of \$513,019, and net book value of \$94,091.

Debt

At year end, the Road Commission had \$3,891,901 in installment purchase and capital lease agreements versus \$3,889,545 last year, a decrease of \$2,356 or .06%.

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	\$ 289,545	\$ 366,901	\$ (77,356)	-26.72%
Capital Lease Agreement	<u>3,600,000</u>	<u>3,525,000</u>	<u>75,000</u>	<u>2.08%</u>
Total	<u><u>\$ 3,889,545</u></u>	<u><u>\$ 3,891,901</u></u>	<u><u>\$ (2,356)</u></u>	<u><u>-0.06%</u></u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note F 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 derived approximately 56% of its revenues from Michigan's fuel tax collected in 2007. We are not projecting an increase in the Michigan Transportation Funds (MTF) due to the trend of the past few years' receipts and the continued increase in fuel costs. The Road Commission received approximately 9% of its revenues from township contributions during 2007. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. Township contributions for 2008 are anticipated to be less than those received in 2007.

## **OSCEOLA COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As stated in the budgetary highlights section, the Road Commission Board strives to hold a solvent fund balance. Although the original 2008 budget projects another year of expenditures greater than revenues, the projected surplus at year end is sufficient for the solvency of the Road Commission.

The board is challenged in its budgeting, in that revenues, namely MTF funds, have not grown to keep pace with the significant increases in costs to run the Road Commission.

The board realizes and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Osceola 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 Osceola 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 the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Osceola County Road Commission's administrative offices at (231) 832-5171.

**OSCEOLA COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
December 31, 2007**

**EXHIBIT A**

**ASSETS**

Cash	\$ 754,725
Receivables	
Michigan Transportation Fund	489,199
Due on County Road Agreements	168,765
Inventories	
Road Materials	130,409
Equipment Parts and Materials	124,006
Capital Assets (Net of Accumulated Depreciation)	<u>16,407,976</u>
Total Assets	<u>18,075,080</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	88,311
Due to State of Michigan	5,119
Accrued Liabilities	22,979
Performance Bonds Payable	6,000
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	105,166
Installment Purchase Agreements Payable--Due in More Than One Year	261,735
Capital Lease Payable--Due Within One Year	75,000
Capital Lease Payable--Due in More Than One Year	3,450,000
Vested Employee Benefits Payable	<u>222,595</u>
Total Liabilities	<u>4,236,905</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	12,516,075
Restricted for County Roads	<u>1,322,100</u>
Total Net Assets	<u><u>\$ 13,838,175</u></u>

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

**OSCEOLA COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2007**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 1,105,804
Local Road Maintenance	1,456,618
Net Equipment Expense	346,385
Net Administrative Expense	263,267
Infrastructure Depreciation	276,272
Compensated Absences	(45,531)
Interest Expense	167,983
	<hr/>
Total Program Expenses	3,570,798
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	10,225
Charges for Services	20,211
Reimbursements	52,767
Operating Grants and Contributions	
State of Michigan Transportation Funds	3,368,452
Investment Earnings	33,471
Capital Grants and Contributions	
Federal Grants	833,235
State Grants	848,212
Contributions From Local Units	562,144
	<hr/>
Total Program Revenue	5,728,717
	<hr/>
Net Program Revenue	2,157,919
	<hr/>
General Revenue	
Gain on Equipment Disposal	187,399
	<hr/>
Total General Revenues	187,399
	<hr/>
Change in Net Assets	2,345,318
	<hr/>
Net Assets	
Beginning of Year	11,492,857
	<hr/>
End of Year	\$ 13,838,175
	<hr/> <hr/>

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

**OSCEOLA COUNTY ROAD COMMISSION  
BALANCE SHEET  
December 31, 2007**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$ 754,725
Accounts Receivable	
Michigan Transportation Fund	489,199
Due From Township Agreements	168,765
Inventories	
Road Materials	130,409
Equipment Parts and Materials	<u>124,006</u>
Total Assets	<u><u>\$ 1,667,104</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 88,311
Due to State	5,119
Accrued Liabilities	22,979
Performance Deposits Payable	<u>6,000</u>
Total Liabilities	<u>122,409</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	254,415
Unreserved and Undesignated	<u>1,290,280</u>
Total Fund Equities	<u>1,544,695</u>
Total Liabilities and Fund Equities	<u><u>\$ 1,667,104</u></u>

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

**OSCEOLA COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND  
BALANCE TO THE STATEMENT OF NET ASSETS  
For the Year Ended December 31, 2007**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 1,544,695
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.	16,407,976
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(4,114,496)</u>
Net Assets of Governmental Activities	<u><u>\$13,838,175</u></u>

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

**OSCEOLA COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended December 31, 2007**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 10,225
Federal Aid	833,235
State Aid	4,216,664
Contributions From Local Units	562,144
Charges for Services	20,211
Interest and Rents	33,471
Other Revenue	<u>240,166</u>
 Total Revenues	 <u>5,916,116</u>
 Expenditures	
Public Works	5,331,400
Capital Outlay	<u>520,230</u>
 Total Expenditures	 <u>5,851,630</u>
 Excess of Revenues Over (Under) Expenditures	  <u>64,486</u>
 Other Financing Sources	
Installment Purchase Proceeds	<u>250,000</u>
 Total Other Financing Sources	 <u>250,000</u>
 Excess of Revenues and Other Financing Sources Over Expenditures	  <u>314,486</u>
 Fund Balance--January 1, 2007	 <u>1,230,209</u>
 Fund Balance--December 31, 2007	 <u><u>\$ 1,544,695</u></u>

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

**OSCEOLA 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 December 31, 2007**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 314,487

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. 1,987,655  
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. (2,355)

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. (Decrease in compensated absenses) 45,531

Change in Net Assets of Governmental Activities \$2,345,318

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

## OSCEOLA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Osceola 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 Osceola County Road Commission.

#### NOTE A--REPORTING ENTITY

The Osceola County Road Commission, which is established pursuant to the County Road Law Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3 member 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 board of commissioners. 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 Osceola County Road Commission, a discretely presented component unit of Osceola 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 Osceola 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.

# OSCEOLA 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 expense 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 customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, 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.

OSCEOLA 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.

Cash and Investments

Cash is 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.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

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 Osceola County Road Commission as assets with an initial individual cost of more than \$1,000 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.

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

## OSCEOLA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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

##### 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--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 fiscal officer (road clerk) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing and subsequently adopts the operating budget. The board has authorized the fiscal officer to amend the Road Commission's budget, when necessary, by transferring up to \$50,000 from one line-item to another. The Road Commission's budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

#### NOTE D--CASH AND INVESTMENTS

MCL 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 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 as 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 one bank 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.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

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

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 754,625
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$ 754,725</u></u>

The bank balance of the primary government's deposits is \$972,745, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investments in all those that are authorized by law.

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. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

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. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

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 Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--CAPITAL ASSETS

A summary of changes in the Road Commission's capital assets are as follows:

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 65,662			\$ 65,662
Infrastructure Land Improvements	5,470,603	\$ 184,050		5,654,653
Subtotal	5,536,264	184,050	\$ -	5,720,315
Capital Assets Being Depreciated				
Buildings	4,577,163	9,000		4,586,163
Road Equipment	5,533,700	493,730	602,610	5,424,820
Shop Equipment	119,654	17,500	4,500	132,654
Office Equipment	31,765			31,765
Engineer's Equipment	35,519			35,519
Depletable Assets	226,825			226,825
Infrastructure--Bridges	599,924	1,628,512		2,228,436
Infrastructure--Roads	3,249,342	687,815		3,937,157
Subtotal	14,373,892	2,836,557	607,110	16,603,339
Less Accumulated Depreciation				
Building	420,819	177,673		598,492
Road Equipment	4,245,088	462,531	511,669	4,195,950
Shop Equipment	74,017	7,941	1,350	80,608
Office Equipment	27,601	1,128		28,729
Engineer's Equipment	23,100	4,283		27,383
Depletable Assets	200,242	9,033		209,275
Infrastructure--Bridges	40,533	20,972		61,505
Infrastructure--Roads	458,436	255,300		713,736
Total	5,489,836	938,861	513,019	5,915,678
Net Capital Assets Being Depreciated	8,884,056	1,897,696	94,091	10,687,661
Total Net Capital Assets	\$ 14,420,320	\$ 3,020,607	\$ 1,032,952	\$ 16,407,976

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 462,531
Indirect Equipment	
Engineer Equipment	4,283
Shop Building	177,673
Shop Equipment	7,941
Net Administrative Expense	
Office Equipment	1,128
Depletion Expense	9,033
Infrastructure Depreciation	<u>276,272</u>
Total Depreciation Expense	<u><u>\$ 938,861</u></u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

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

	<u>Balance</u> <u>01/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>One Year</u>
Caterpillar Track-Type Tractor Model D4GXL \$67,895 Capital Lease Dated July 1, 2003	\$ 37,338	\$ (37,338)	-	
Caterpillar Excavator Model 312CL \$92,095 Capital Lease Dated July 15, 2003	55,509	(55,509)	-	
Two 2003 International Trucks \$212,000 Promissory Note Dated May 16, 2003, maturing serially through 2008 with quarterly installments of \$11,558 and an interest rate of 3.3%.	67,067	(44,565)	\$ 22,502	\$ 22,502
Two 2004 International Trucks \$180,000 Promissory Note Dated May 15, 2005, maturing serially through 2010 with quarterly installments of \$9,998 and an interest rate of 3.99%.	129,632	(35,233)	94,399	36,734
Two Road Commission Facilities \$3,750,000 Capital Lease Dated April 1, 2004, maturing serially through 2034 with biannual payments ranging from \$75,000 to \$225,000 and at an interest rate ranging from 3.0% to 4.875%.	3,600,000	(75,000)	3,525,000	75,000
Two 2007 International Trucks \$250,000 Promissory Note Dated October 17, 2007, maturing serially through 2012 with quarterly installments of \$13,925 and an interest rate of 4.15%.		250,000	250,000	45,930
Vested Employee Benefits Vacation and Sick Leave	<u>268,126</u>	<u>(45,531)</u>	<u>222,595</u>	
Totals	<u>\$ 4,157,672</u>	<u>\$ (43,176)</u>	<u>\$ 4,114,496</u>	<u>\$ 180,166</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Two 2003 International Trucks were purchased in May 2003 under a promissory note through Huntington Bank. The original purchase price was \$212,000, with 20 quarterly payments of \$11,558 at an interest rate of 3.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
05/15/03	\$ 212,000	3.3%	2008	<u>\$ 22,502</u>	<u>\$ 277</u>
			Total	<u><u>\$ 22,502</u></u>	<u><u>\$ 277</u></u>

Two International Tractors, Model 5900I, were purchased in May 2005 under a lease purchase agreement through Huntington National Bank. The original purchase price was \$180,000, with 20 quarterly payments of \$9,988 at an implied interest rate of 3.99%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
05/16/05	\$ 180,000	3.99000%	2008	\$ 36,734	\$ 3,217
			2009	38,221	1,729
			2010	<u>19,444</u>	<u>288</u>
			Total	<u><u>\$ 94,399</u></u>	<u><u>\$ 5,234</u></u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

On September 1, 2004, the Osceola County Building Authority issued Building Authority Bonds, Series 2004, in the amount of \$3,750,000 for the purpose of constructing, furnishing and equipping two new facilities for the Osceola County Road Commission. The Road Commission has entered into a 30 year capital lease agreement as lessee for the financing of these two new facilities with Osceola County who leased the facilities from the Building Authority, after which time the possession of the leased premises shall vest in the Road Commission after the bonds are retired. The Road Commission is to operate and maintain the leased premises and keep them in good condition and repair.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
05/16/05	\$ 3,750,000	3.99%	2008	\$ 75,000	\$ 155,431
			2009	75,000	153,181
			2010	75,000	150,837
			2011	75,000	148,306
			2012	75,000	145,588
			2013-2017	475,000	677,997
			2018-2022	575,000	572,424
			2023-2027	725,000	428,002
			2028-2032	925,000	225,991
			2033-2034	<u>450,000</u>	<u>21,937</u>
			Total	<u>\$ 3,525,000</u>	<u>\$ 2,679,694</u>

Two International Tractors, were purchased in October 2007 under a lease purchase agreement through Huntington National Bank. The original purchase price was \$250,000, with 20 quarterly payments of \$13,925 at an implied interest rate of 4.15%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
10/17/2007	\$250,000	4.15%	2008	\$ 45,930	\$ 9,769
			2009	47,862	7,837
			2010	49,907	5,791
			2011	52,041	3,658
			2012	<u>54,260</u>	<u>1,438</u>
			Total	<u>\$250,000</u>	<u>\$ 28,493</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee at the beginning of each year, not to exceed a total accumulation of 44 days for union employees, 59 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of service, not to exceed a total accumulation of 125 days for any employee. Sick pay is payable at the following percentage when employees leave prior to retirement.

10 years of service	60 percent
5-10 years of service	40 percent
0-5 years of service	20 percent

Sick leave is payable at 100% at retirement or death.

Total accumulated vacation and sick leave has been recorded in the long-term debt. At December 31, 2007, the total vested vacation and sick leave benefits were \$51,233 and \$171,362, respectively.

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Osceola 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, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for general and administration is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% and 2.50% of the final average compensation (FAC) with a maximum benefit of 80% of the FAC for the general and administrative employees, respectively. 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.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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. The employee contribution for the year ending December 31, 2006, was 1.5% of gross wages for general employees and 1.5% of gross wages for administrative employees. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 9.60% and 15.73% of annual compensation at December 31, 2004, for the general and administrative groups, respectively, of annual compensation.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost was \$125,060 based on the actuarially determined rate for 2004. The employees contributed \$17,314 in accordance with the union and personnel agreements. 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

Year Ended <u>December 31</u>	Annual Pension Cost (APC)		Percentage Of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
	<u>Employer</u>	<u>Employee</u>		
2004	\$ 108,321	\$ 16,341	100%	\$0
2005	104,354	16,847	100%	\$0
2006	125,060	17,314	100%	\$0

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/04	\$ 4,962,306	\$ 5,761,285	\$ 798,979	86%	\$ 1,065,505	75%
12/31/05	5,115,949	5,951,945	835,996	86%	1,123,147	74%
12/31/06	5,369,204	6,380,310	1,011,106	84%	1,100,074	92%

NOTE H--POST-EMPLOYMENT BENEFITS

Osceola 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 Blue Cross/Blue Shield, including spouse, from the time the retiree is 62 years old until 65 years of age. After age 65, retirees must reimburse the employer for the cost of insurance. Employees that retire before age 62 may remain in the health group if they reimburse the employer for the cost of insurance.

Currently, 5 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 in 2007 totaled \$50,658, while reimbursements from retirees totaled \$11,324. The net cost to the Road Commission was \$39,334.

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) for claims relating to general and auto liability, auto physical damage and property loss claims. The Road Commission is self-insured through the County Road Association Self-Insurance Fund (CRASIF) for workers' compensation claims. The MCRCSIP operates as a claims servicing pool for amounts up to \$1,000,000 per member. Claims in excess of that amount up to \$10,500,000 would be covered by an excess insurance carrier. Although premiums are paid annually to the MCRCSIP (that it uses to pay claims up to the \$1,000,000 limit), the ultimate liability for those claims remain with the Road Commission. Amounts of settlements have not exceeded insurance coverage in the prior three years.

## OSCEOLA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--CONTINGENT LIABILITIES

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.

#### 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 calendar year ended December 31, 2007, the Federal aid received and expended by the Road Commission was \$703,270 for contracted 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.

During the calendar year ended December 31, 2007, the Road Commission received two federal negotiated projects totaling \$129,965. Negotiated projects are projects that are performed by the Road Commission and are subject to Single Audit requirements, if the amount expended is \$500,000 or more. A Single Audit was not required for the calendar year ended December 31, 2007.

**OSCEOLA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2007**

**EXHIBIT G**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 10,000	\$ 10,000	\$ 10,225	\$ 225
Federal Aid				
Critical Bridge	1,005,000	794,000	795,076	1,076
Surface Transportation Program	200,000	38,000	38,159	159
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,040,000	2,040,000	2,034,912	(5,088)
Local Road	1,288,000	1,288,000	1,297,189	9,189
Snow Removal	27,000	27,000	26,351	(649)
State Critical Bridge	188,000	498,000	499,042	1,042
Exchange of Federal Funds	391,000	298,000	298,000	-
Economic Development Funds				
Forest Funds (E)	50,000	50,000	51,170	1,170
Contributions--Local Units				
Townships	414,000	566,000	562,144	(3,856)
Charges for Services				
Salvage Sales	1,000	20,000	20,211	211
Interest and Rents				
Interest Earned	25,000	27,000	29,686	2,686
Royalties	4,000	4,000	3,785	(215)
Other Revenue				
Gain on Equipment Disposal	-	183,000	187,399	4,399
Reimbursements	3,000	49,000	52,767	3,767
Total Operating Revenue	5,656,000	5,902,000	5,916,116	14,116
Other Financing Sources				
Installment Purchase Proceeds		250,000	250,000	-
Total Other Financing Sources	-	250,000	250,000	-
Total Revenue	5,656,000	6,152,000	<u>\$ 6,166,116</u>	<u>\$ 14,116</u>
Fund Balance--January 1, 2007	1,203,267	1,230,208		
Total Budget	<u>\$6,859,267</u>	<u>\$7,382,208</u>		

**OSCEOLA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2007**

**EXHIBIT H**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 775,000	\$ 425,000	\$ 422,527	\$ 2,473
Routine and Preventive Maintenance	1,265,000	1,118,453	1,105,804	12,649
Local Road				
Preservation/Structural Improvements		450,000	449,338	662
Routine and Preventive Maintenance	1,650,000	1,332,000	1,319,010	12,990
Primary Road Structures				
Preservation/Structural Improvements	370,000	461,000	460,283	717
Local Road Structures				
Preservation/Structural Improvements	1,220,000	1,170,000	1,168,229	1,771
Routine and Preventive Maintenance		138,000	137,608	392
Equipment Expense--Net	325,000	369,000		
Direct			\$ 964,918	
Indirect			535,374	
Operating			356,685	
Less: Equipment Rentals			<u>(1,510,592)</u>	22,615
Administrative Expense--Net	274,800	270,500		
Administrative Expense			263,759	
Less: Purchase Discounts			<u>(492)</u>	7,233
Capital Outlay--Net	(400,000)	(229,000)		
Capital Outlay			520,230	
Less: Depreciation Credits			(662,588)	
Equipment Retirements			<u>(94,091)</u>	7,449
Debt Service				
Principal	219,000	247,645	247,645	-
Interest	167,000	168,752	167,983	769
Total Expenditures	5,865,800	5,921,350	<u>\$ 5,851,630</u>	<u>\$ 69,720</u>
Fund Balance--December 31, 2007	<u>993,467</u>	<u>1,460,858</u>		
Total Budget	<u>\$ 6,859,267</u>	<u>\$7,382,208</u>		

**OSCEOLA COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended December 31, 2007**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,845,514	\$ 2,821,782	\$ 248,820	\$ 5,916,116
Total Expenditures	2,222,507	3,445,649	183,474	5,851,630
Excess of Revenues Over (Under) Expenditures	623,007	(623,867)	65,346	64,486
Other Financing Sources (Uses)				
Installment Purchase Proceeds			250,000	250,000
Optional Transfers	(612,305)	612,305		-
Interfund Adjustment		11,562	(11,562)	-
Total Other Financing Sources (Uses)	(612,305)	623,867	238,438	250,000
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	10,702	-	303,784	314,486
Fund Balance--January 1, 2007	724,916	-	505,293	1,230,209
Fund Balance--December 31, 2007	\$ 735,618	\$ -	\$ 809,077	\$ 1,544,695

**OSCEOLA COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended December 31, 2007**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Liscenses and Permits				
Permits			\$ 10,225	\$ 10,225
Federal Aid				
Critical Bridge		\$ 795,076		795,076
Surface Transportation Program	\$ 38,159			38,159
State Aid				
Michigan Transportation Fund				
Engineering	6,107	3,893		10,000
Primary Road	2,034,912			2,034,912
Local Road		1,297,189		1,297,189
Snow Removal		26,351		26,351
State Critical Bridge	349,965	149,077		499,042
Exchange of Federal Funds	298,000			298,000
Economic Development Funds				
Forest Funds (E)	51,170			51,170
Contributions--Local Units				
Townships	40,862	521,282		562,144
Charges for Services				
Salvage Sales			20,211	20,211
Interest and Rents				
Interest Earned	17,493		12,193	29,686
Royalties			3,785	3,785
Other Revenue				
Gain on Equipment Disposal			187,399	187,399
Reimbursements	8,846	28,914	15,007	52,767
Total Operating Revenue	2,845,514	2,821,782	248,820	5,916,116
Other Financing Sources				
Installment Purchase Proceeds			250,000	250,000
Total Other Financing Sources	-	-	250,000	250,000
Total Revenue and Other Financing Sources	\$2,845,514	\$2,821,782	\$ 498,820	\$6,166,116

**OSCEOLA COUNTY ROAD COMMISSION  
ANALYSIS OF EXPENDITURES  
For the Year Ended December 31, 2007**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 422,527			\$ 422,527
Routine and Preventive Maintenance	1,105,804			1,105,804
Local Road				
Preservation/Structural Improvements		\$ 449,338		449,338
Routine and Preventive Maintenance		1,319,010		1,319,010
Primary Road Structures				
Preservation/Structural Improvements	460,283			460,283
Local Road Structures				
Preservation/Structural Improvements		1,168,229		1,168,229
Routine and Preventive Maintenance		137,608		137,608
Equipment Expense--Net (Per Exhibit H)	130,484	211,606	\$ 4,295	346,385
Administrative Expense--Net (Per Exhibit H)	103,409	159,858		263,267
Capital Outlay--Net (Per Exhibit H)			(236,449)	(236,449)
Debt Principal Payments			247,645	247,645
Interest Expense			167,983	167,983
Total Expenditures	<u>\$2,222,507</u>	<u>\$ 3,445,649</u>	<u>\$ 183,474</u>	<u>\$ 5,851,630</u>



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

April 3, 2008

Osceola County Road Commission  
Board of County Road Commissioners  
800 South Chestnut Street  
Reed City, Michigan 49677

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 Osceola County Road Commission, a component unit of Osceola County, as of and for the year ended December 31, 2007, and have issued our report thereon dated April 3, 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 Osceola 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 Osceola County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Osceola 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 internal control 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 could adversely affect 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 entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting which are listed as Findings 07-1 and 07-2.

A material weakness is a significant deficiency or combination of significant deficiencies, which 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 and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Osceola 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that are described in the accompanying Comments and Recommendations as Findings 07-3 through 07-6.

This report is intended solely for the information of the Osceola County Board of Road Commissioners, the Road Commission's management, others within the Road Commission, 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

## OSCEOLA COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

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 could adversely affect the Osceola 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 Osceola County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Listed below are significant deficiencies in the internal control.

#### SIGNIFICANT DEFICIENCIES

##### Cash Disbursements--Segregation of Duties

*Finding 07-1*

*Condition:* The person responsible for invoice processing and accounts payable is also responsible for the general ledger. There is no cross training for accounts payable.

*Criteria:* According to the Accounting Procedures Manual for Local Units of Government, duties must be segregated among different people to reduce the risk of errors or misappropriations. No one person should have control over all aspects of the financial transactions. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody and recordkeeping.

*Recommendation:* We recommend that the accounts payable duties be segregated and that cross training be implemented.

##### Inventory

*Finding 07-2*

*Condition:* We randomly selected 25 various stock items from the part and sign inventories. We compared the inventory cards with the actual counts to determine the accuracy of the perpetual inventory records. We found that 6 items had discrepancies as a result of weaknesses over the internal control of inventory items. We also found that the Road Commission did not have a subsidiary listing for the inventory parts at December 31, 2007. The most current subsidiary list was for November 30, 2007.

*Criteria:* All assets must be safeguarded and detailed records must be reconciled to control totals.

*Recommendation:* We recommend that physical inventory be performed on the parts with higher turnover as well as high priced inventory on a more frequent basis. We also recommend that the inventory subsidiary listing agree with the inventory status report and the general ledger at least on an annual basis. The Road Commission may want to consider putting all of the individual inventory parts into the inventory status report.

## OSCEOLA COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### OTHER MATTERS

##### Revenue/Accounts Receivable Control

*Finding 07-3*

##### *Condition:*

- Receivables are not recorded when the service is performed, but are recorded at year end for any outstanding invoices.
- Maintenance of the receivable subsidiary ledger is not independent of the general ledger maintenance.
- Recording and approval of receivables is not independent of the cash handling and other accounts receivable bookkeeping.
- Aged receivable listings were not prepared and reviewed by the appropriate level of management.
- Appropriate level of management does not review reconciliations between receivable trial balances and the general ledger.

*Criteria:* The Government Finance Officers Association (GFOA) recommends governments establish a revenue control and management policy and review it on an annual basis. This policy should be appropriate for the size and resources of the government. The following factors, as applicable, should be considered in the development of a revenue control and management policy:

- Internal Controls--All aspects of accounts receivable and cash receipting shall be subject to proper internal controls that include segregation of duties, daily processing, timely deposits, reconciliation to applicable ledgers, automated system resources, physical security procedures and fraud reporting procedures. When possible, someone other than the person who writes receipts or posts the accounting records should be responsible to verify that collections received in the mail are properly receipted. When possible, collections should be reconciled by an individual not involved in the receipting process.
- Accounting Practices--All receipts and receivables should be recorded in accordance with current authoritative standards and practices.
- Billing Practices--Accounts receivables should be established for services provided in advance of payment and there should be established terms for collection.
- Bad Debt--An allowance for doubtful accounts and a write-off policy should be established.

*Recommendation:* We recommend that there be segregation of duties over the receipting and receivables transaction cycles. Some compensating controls could be:

- When possible, someone other than the person who writes receipts or posts the accounting records should be responsible to reviewing accounts receivable.
- Accounts receivable should be monitored in a timely manner and an aged accounts receivable should be made available to management. The board of road commissioners should make the final decision on any accounts receivable write-offs.

## OSCEOLA COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### OTHER MATTERS (Continued)

##### Lack of Segregation of Duties Over Capital Assets

*Finding 07-4*

*Condition:* We found that one person handles the recording of the detail records, control records and reconciles of the assets. This person is also not independent of the general ledger, cash, purchasing, payable functions, but generally does not authorize capital purchases.

*Criteria:* An accounting system is designed to assemble, analyze, classify, record, and report financial data. In performing these functions, an accounting system also must maintain adequate control over a local unit of government's assets. An accounting system is only as reliable as the underlying data it processes. A local unit of government's internal control framework must provide assurance that the accounting system and its underlying data are reliable. An accounting system must also facilitate maintenance of internal control.

*Recommendation:* We recommend that management monitor the capital outlay and capital asset listing and periodically review the reconciliation of the assets to the control accounts.

##### Capitalization Threshold Policy

*Finding 07-5*

*Condition:* We found that the board does not have a formal capitalization threshold policy. The Road Commission does not have a policy for determining the fair value of contributed capital assets, which should periodically reviewed by the appropriate level of management or another appropriate person.

*Recommendation:* We recommend that the board adopt a resolution for a capitalization policy. An example of a policy is in the Uniform Chart of Accounts for County Road Commissions in Michigan. The policy should also address determining the fair value of contributed capital assets (including infrastructure).

##### Other Post-Employment Benefits

*Finding 07-6*

*Condition:* The Osecola County Road Commission has other post-employment benefits (Road Commission paid retiree insurance premiums) that meet the requirements established under Government Accounting Standards Board Statement No. 45.

*Criteria:* Effective during 2009, Government Accounting Standards Board (GASB) Statement No. 45 requires governmental units to retain the services of an actuary to determine and record the unfunded liability related to other post-employment benefits.

*Recommendation:* We recommend that the Road Commission obtain an actuarial report or use an authorized alternative method to determine the unfunded liability related to other post-employment benefits.