Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Sanilac County Road Commission	Sanilac

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
December 31, 2006	June 7, 2007	June 29, 2007

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☒	N/A

Certified Public Accountant (Firm Name)	Telephone Number		
Abraham & Gaffney, P.C.	(517) 351-6836		
Street Address	**City**	**State**	**Zip**
3511 Coolidge Road, Suite 100	East Lansing	MI	48823

Authorizing CPA Signature	Printed Name	License Number
Aaron M. Stevens	Aaron M. Stevens, CPA	1101024055

Sanilac County Road Commission
Sandusky, Michigan

FINANCIAL STATEMENTS

December 31, 2006

Sanilac County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the accompanying component unit financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission, a component unit of Sanilac County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these component unit 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 Sanilac County Road Commission as of December 31, 2006, 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 June 7, 2007, on our consideration of the Sanilac County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the component unit financial statements that collectively comprise the Sanilac 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 component unit basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the component unit basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 7, 2007

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2006

Our discussion and analysis of Sanilac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. 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 Sanilac County Road Commission:

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

Fund Financial Statements

The Road Commission currently has only two funds, the general operations fund and the pension fund. All of the Sanilac County Road Commission's operating 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 19 and 20. The other supplementary information begins on page 21 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 Sanilac 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 $46,035,441 to $46,704,764, for the year ended December 31, 2006. 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 by 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 $669,323 during 2006. The reconstruction of 9.5 miles and resurfacing of 32 miles of primary road, the replacement of 1 major bridge and the purchase of road equipment accounted for part of the increase as these items are capitalized and expensed over their useful lives, as opposed to being expensed in the year that the roads were constructed or the equipment was placed in service.

Net assets for the years ended December 31, 2006 and 2005:

	2006	2005
Current Assets	$ 2,436,240	$ 2,440,180
Capital Assets	45,437,401	44,735,661
TOTAL ASSETS	**47,873,641**	**47,175,841**
Current Liabilities	469,916	872,183
Noncurrent Liabilities	698,961	1,287,376
TOTAL LIABILITIES	**1,168,877**	**2,159,559**
Net Assets Invested in Capital Assets (Net of Related Debt)	45,043,364	43,555,790
Restricted for County Roads	1,661,400	1,460,492
TOTAL NET ASSETS	**$ 46,704,764**	**$ 45,016,282**

Changes in Net Assets

This is the fourth year of Governmental Accounting Standards Board Statement No. 34, which requires this financial reporting model. The following table presents comparison between 2005 and 2006 year data.

	Governmental Activities	
	2006	**2005**
Program Revenues		
Charges for services	$ 1,211,515	$ 1,570,255
Operating grants & contributions	6,932,128	6,710,380
Capital grants & contributions	307,506	3,366,618
General Revenues		
Property taxes	1,832,223	1,754,115
Interest	79,846	67,973
Miscellaneous	2,601	76
Gain on equipment disposal	-	126,608
TOTAL REVENUES	**10,365,819**	**13,596,025**
Expenses		
Primary Roads	1,136,462	5,440,701
Local Roads	4,105,291	6,240,866
State Trunkline	1,182,965	1,465,245
Equipment - net	1,080,862	1,294,367
Administrative - net	(491,391)	(5,694,296)
Infrastructure depreciation	2,659,267	2,568,073
Interest expense	7,479	(177,895)
Other	15,561	8,578
TOTAL EXPENSES	**9,696,496**	**11,145,639**
INCREASE IN NET ASSETS	**$ 669,323**	**$ 2,450,386**

The Sanilac 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, 2006, the fund balance of the general operating fund increased $91,432 as compared to a decrease of $706,855 in the fund balance for the year ended December 31, 2005. Total operating revenues were $10,365,819, a decrease of $3,230,206 as compared to last year. Total expenditures were $10,541,489, a decrease of $4,659,841 as compared to last year.

A summary of changes in the Operating Fund for the years ended December 31, 2006 and 2005:

	Operating Fund	
	2006	**2005**
Revenues		
Taxes	$ 1,832,223	$ 1,754,115
Licenses & Permits	30,785	27,370
Federal Grants	223,673	2,150,167
State Grants	5,501,531	6,305,284
Contributions from local units	1,514,430	1,621,547
Charges for services	1,180,730	1,542,885
Interest & Rents	79,846	67,973
Other	2,601	76
Gain (loss) on equipment disposals	-	126,608
TOTAL REVENUES	**10,365,819**	**13,596,025**
Expenditures		
Primary Road	3,865,270	5,523,280
Local Road	3,487,294	6,292,249
State Trunkline	1,211,735	1,514,793
Equipment - net	367,480	308,489
Administrative - net	341,856	295,644
Capital outlay	(201,959)	773,475
Debt service	44,176	484.822
Other	1,425,637	8,578
TOTAL EXPENDITURES	**10,541,489**	**15,201,330**
EXCESS OF REVENUES (UNDER) EXPENDITURES	**(175,670)**	**(1,605,305)**
Other Financing Sources		
Lease proceeds	267,102	898,450
NET CHANGE IN FUND BALANCE	**91,432**	**(706,855)**
FUND BALANCE - BEGINNING	**1,961,974**	**2,668,829**
FUND BALANCE - ENDING	**$ 2,053,406**	**$ 1,961,974**

The following details the road projects for 2006 and how they were financed:

Location	Type of Work	Millage	Road Comm	Fed/State Aid	Total Cost
Frenchline Rd--M-53 to Juhl Rd.	Final-Fed Aid		$ 1,795.74	$ 1,945.86	$ 3,741.60
Old 51--Croswell Rd to Applegate Rd	Final-Fed Aid		4,456.84	14,157.00	18,613.84
Old 51--Applegate Rd to Carsonville VL	Final-Fed Aid		5,447.25	17,303.00	22,750.25
Stilson Road--M-19 to Brown Road	Recycle/Bit Material Overlay	$ 453,311.39	162,567.32		615,878.71
Argyle Road--Patterson to M-19	Bituminous Overlay	45,348.19	2,035.95		47,384.14
Germania Road--Mushroom Rd to Deckerville Rd.	Bituminous Overlay	89,903.88	3,310.32		93,214.20
Germainia Road--M-46 to Snover Rd.	Bituminous Overlay	120,647.45	3,385.95		124,033.40
Peck Road--Cade Rd. to Maple Valley Rd.	Recycle/Bit Material Overlay	96,680.52	5,835.28		102,515.80
Palms/Hunt Road--Ruth Rd. to Snay Rd.	Bituminous Overlay		112,661.75		112,661.75
Maple Grove Rd--Downington Rd to Richmondville Rd	Bituminous Overlay	143,489.12	82,934.71		241,168.41
Deckerville Rd--Maple Grove to M-25	Bituminous Overlay	232,313.44	21,778.40		239,347.26
Ruth Rd--Deckerville NVL to Palms Rd	Bituminous Overlay	216,224.81	6,248.77		222,473.58
Marlette Rd--Juhl Rd to M-19	Bituminous Overlay	277,442.06	42,085.64		319,527.70
Snover Rd--Sheldon Rd to Gates Rd	Bituminous Overlay	86,868.68	2,859.38		89,728.06
Clifford Rd--Cargill Rd to M-53	Bituminous Overlay	69,993.23	2,178.55		72,171.78
Todd Rd--Fisher Rd to M-90	Culvert Replacements		232,196.18		232,196.18
Bay City Forestville--M-52 to Hoadley	Culvert Inventory		382.78		382.78
Melvin Rd--Melvin VL to M-90	Culvert Replacements		4,927.56		4,927.56
Frenchline Rd--Townline Rd to M-19	Culvert Replacements		10,758.61		10,758.61
Juhl Rd--Marlette Rd to Frenchline Rd	Culvert Replacements		26,878.92		26,878.92
Germania Rd--Marlette Rd to M-46	Culvert Replacements		51,926.86		51,926.86
		$1,832,222.77	$ 786,652.76	$ 33,405.86	$ 2,652,281.39

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 final amended revenue budget for 2006 was $608,776 higher than the original budget primarily due to the addition of State of Michigan maintenance projects, increased monies from the countywide primary road millage and Board's decision to purchase two tandem trucks through the state purchasing plan. The actual revenue recognized during 2006 was more than the final amended budget by $296,434. There were twelve (12) immaterial unfavorable variances in all of the revenue line items.

The final amended expenditures budget for 2006 was $608,776 higher than the original budget primarily due to the increased operating costs, increased cost of fringe benefits and the addition of primary road paving projects in excess of the millage funding. The actual expenditures recognized during 2006 were $969,502 more than the final amended budget. There were unfavorable variances in several expenditure line items, the most significant variance being the other expenditures.

Capital Asset & Debt Administration

Capital Assets

As of December 31, 2006, the Road Commission had invested $45,437,401 in net capital assets. This amount represents a net increase (including additions and deductions) of $701,740.

	2006	2005
Capital Assets Not Being Depreciated		
Land & Improvements	$ 66,903	$ 66,903
Construction in progress	393,228	-
SUBTOTAL	**460,131**	**66,903**
Capital Assets Being Depreciated		
Buildings	430,666	429,111
Equipment	8,125,557	7,738,414
Depletable assets	55,450	55,450
Infrastructure	64,961,567	62,164,852
SUB-TOTAL	**73,573,240**	**70,387,827**
TOTAL CAPITAL ASSETS	**74,033,371**	**70,454,730**
TOTAL ACCUMULATED DEPRECIATION	**(28,595,970)**	**(25,719,069)**
TOTAL NET CAPITAL ASSETS	**$ 45,437,401**	**$ 44,735,661**

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

Construction in progress	$ 393,228
Buildings	1,555
Equipment	
Roads	311,027
Engineer	87,689
Infrastructure	
Roads	2,992,685
Bridges	310,696
TOTAL	**$ 4,096,880**

During 2006, the Road Commission entered into a lease purchase agreement for two International Tractor Trucks for 36 months with payments of $7,953 each month. The lease had an interest rate of 4.50%.

During 2006, the Road Commission traded in and/or disposed of equipment (road, shop, office, and engineering) with a purchase amount of $518,239, related accumulated depreciation of $510,971, and net book value of $7,268.

Debt

As of December 31, 2006, the Road Commission had $784,595 in long-term debt (i.e., lease purchase agreements and compensated absences) outstanding versus $661,658 last year:

	12/31/05 Balance	2006 Additions	2006 Payments	12/31/06 Balance
Lease Purchase Agreements	$ 164,544	$ 267,102	$ 37,609	$ 394,037

Other obligations include accrued vacation pay and sick leave. As of December 31, 2006, the Road Commission has a $390,558 outstanding debt related to accumulated unused vacation pay and sick leave. As of September 30, 2003, individual employees no longer have vested rights upon termination of employment to receive payment for unused sick leave, however balances that had accumulated up to that date are being paid out to individual employees over a five year period. The third of the five payments to individual employees was made during 2006 and accumulated vacation and sick leave obligations were reduced by $106,556. More detailed information about the Road Commission's long-term liabilities is presented in Note D to the Financial Statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considers many factors when setting the fiscal year 2007 budget. The Road Commission derives approximately 50% of its revenue from the fuel tax collected. Using MDOT projections, it is estimated the Sanilac County Road Commission will receive about the same amount or approximately a 1% increase in MTF revenues in 2007. The Road Commission received $1.5 million in township contributions in 2006 and we expect to do the same amount of local road work in 2007. During 2007 we will be doing a major Federal Aid project, two primary road bridge replacements, a six mile reconstruction project through Local Jobs Today and bituminous resurfacing on several primary and local roads. Most of the primary road work will be done by private contractors leaving road commission forces to do routine preservation and maintenance work. The Road Commission will only be doing scheduled and funded work in an effort to maintain our fund balance.

The above items were considered when adopting the budget for 2007. Amounts available for appropriation in the 2007 budget are $11,779,325.00 which is approximately $1.2 million more than the 2006 expenditures. Last year was a catch up year where we finaled out the Federal Aid work and the Critical Bridge work which had been started during 2005. The Primary road and bridge work scheduled for 2007 will increase our Federal and State revenues and the value of our assets. However with the instability of the revenue sources, we will continue to operate cautiously.

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 Sanilac County Road Commission's administrative offices at 35 N. Flynn Street, Sandusky, Michigan 48471.

BASIC FINANCIAL STATEMENTS

Sanilac County Road Commission

STATEMENT OF NET ASSETS

December 31, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 1,168,286
Accounts receivable	8,310
Due from other governmental units	
State	896,758
Local	35,460
Prepaid expenses	30,116
Inventory	297,310
Total current assets	2,436,240
Noncurrent assets	
Capital assets not being depreciated	460,131
Capital assets, net of accumulated depreciation	44,977,270
Total noncurrent assets	45,437,401
TOTAL ASSETS	47,873,641
LIABILITIES	
Current liabilities	
Accounts payable	126,546
Accrued liabilities	55,572
Accrued interest payable	1,448
Due to other governmental units	
State	17
Local	5,742
Performance bond payable	5,000
Current portion of compensated absences	169,777
Current portion of long-term debt	105,814
Total current liabilities	469,916
Noncurrent liabilities	
Advances	189,957
Noncurrent portion of compensated absences	220,781
Noncurrent portion of long-term debt	288,223
Total noncurrent liabilities	698,961
TOTAL LIABILITIES	1,168,877
NET ASSETS	
Invested in capital assets, net of related debt	45,043,364
Restricted for County Roads	1,661,400
TOTAL NET ASSETS	$ 46,704,764

See accompanying notes to financial statements.

Sanilac County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

	Governmental Activities
Program Expenses	
Primary Road	$ 1,136,462
Local Road	4,105,291
State Trunkline	1,182,965
Equipment - net	1,080,862
Administrative - net	(491,391)
Infrastructure depreciation	2,659,267
Interest expense	7,479
Other	15,561
TOTAL PROGRAM EXPENSES	9,696,496
Program Revenues	
Charges for services	1,211,515
Operating grants and contributions	6,932,128
Capital grants and contributions	307,506
TOTAL PROGRAM REVENUES	8,451,149
NET PROGRAM REVENUES	(1,245,347)
General Revenues	
Property taxes	1,832,223
Interest	79,846
Miscellaneous	2,601
TOTAL GENERAL REVENUES	1,914,670
CHANGE IN NET ASSETS	669,323
Restated net assets, beginning of the year	46,035,441
Net assets, end of the year	$ 46,704,764

See accompanying notes to financial statements.

Sanilac County Road Commission

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2006

	Governmental Fund Type General Operating Fund
ASSETS	
Cash and cash equivalents	$ 1,168,286
Accounts receivable	8,310
Due from other governmental units	
State of Michigan	896,758
Local	35,460
Prepaid expenditures	30,116
Inventory	297,310
TOTAL ASSETS	$ 2,436,240
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	$ 126,546
Accrued liabilities	55,572
Due to other governmental unit	
State of Michigan	17
Local	5,742
Performance bond payable	5,000
Advances	
State of Michigan	189,957
TOTAL LIABILITIES	382,834
FUND EQUITY	
Fund balance	
Reserved for inventory	297,310
Reserved for prepaids	30,116
Unreserved - undesignated	1,725,980
TOTAL FUND EQUITY	2,053,406
TOTAL LIABILITIES AND FUND EQUITY	$ 2,436,240

See accompanying notes to financial statements.

Sanilac County Road Commission

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

December 31, 2006

Total fund balance - governmental fund		$ 2,053,406
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	$ 74,033,371	
Accumulated depreciation is	(28,595,970)	
Capital assets, net		45,437,401
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:		
Lease purchase agreements	(394,037)	
Accrued interest payable	(1,448)	
Compensated absences	(390,558)	
		(786,043)
Net assets of governmental activities		$ 46,704,764

See accompanying notes to financial statements.

Sanilac County Road Commission

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

Year Ended December 31, 2006

	Governmental Fund Type General Operating Fund
REVENUES	
Taxes	$ 1,832,223
Licenses and permits	30,785
Intergovernmental	7,239,634
Charges for services	1,180,730
Interest and rents	79,846
Other	2,601
TOTAL REVENUES	10,365,819
EXPENDITURES	
Current	
Primary Road	3,865,270
Local Road	4,897,370
State Trunkline	1,211,735
Equipment - net	367,480
Administrative - net	341,856
Capital outlay	(201,959)
Debt Service	44,176
Other	15,561
TOTAL EXPENDITURES	10,541,489
EXCESS OF REVENUES (UNDER) EXPENDITURES	(175,670)
OTHER FINANCING SOURCES	
Capital leases	267,102
NET CHANGE IN FUND BALANCE	91,432
Fund balance, beginning of year	1,961,974
Fund balance, end of year	$ 2,053,406

See accompanying notes to financial statements.

Sanilac 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, 2006

Net change in fund balance - governmental fund		$ 91,432
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	$ 4,096,880	
Depreciation expense	(728,605)	
Infrastructure depreciation	(2,659,267)	
Excess of capital outlay over depreciation expense		709,008
In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold.		(7,268)
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:		
Capital lease agreements	(267,102)	
Capital lease payments	37,609	(229,493)
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:		
(Increase) in accrued interest payable	(912)	
Decrease in accrued compensated absences	106,556	
		105,644
Change in net assets of governmental activities		$ 669,323

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2006

	Pension Fund
ASSETS	
Cash equivalents	$ 30,543
Investments	4,588,904
TOTAL ASSETS	$ 4,619,447
NET ASSETS	
Held in trust for pension benefits	$ 4,619,447

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2006

	Pension Fund
ADDITIONS	
Contributions	
Employer	$ 194,884
Investment earnings	
Net increase in fair value of investments	383,626
Dividends	233,845
Total investment earnings	617,471
TOTAL ADDITIONS	812,355
DEDUCTIONS	
Benefits	(162,025)
CHANGE IN NET ASSETS	650,330
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	3,969,117
End of year	$ 4,619,447

See accompanying notes to financial statements.

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

The Sanilac County Road Commission (the "Commission") is a component unit of Sanilac 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 twenty-six (26) Townships in Sanilac County and maintains over 1,800 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 Sanilac County Road Commission. The Commission is considered a component unit of Sanilac County, Michigan and is discretely presented in Sanilac County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Sandusky, 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.

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 consists of the Commission's checking, money market account, and imprest cash. Investments consist of various money market funds, stocks and bonds.

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.

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 Sanilac 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.

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.

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 Sanilac County Treasurer's Office, and in order to make disbursements, the Sanilac 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.

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.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As of December 31, 2006, the carrying amount of the Commission's deposits was $1,168,236 and the bank balance was $1,448,345, of which $200,000 was covered by federal depository insurance. The remaining balance of $1,248,345 was uninsured and uncollateralized.

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

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2006, the carrying amount and market values for the investment funds are as follows:

	Carrying Amount	Market Value
Uncategorized pooled investment funds:		
American Funds Retirement - Fiduciary Fund	$ 4,619,447	$ 4,619,447

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.

The cash caption on the balance sheet includes $50 in imprest cash.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 was as follows:

	Balance Jan. 1, 2006	Additions and Reclassifications	Deletions	Balance Dec. 31, 2006
Capital Assets Not Being Depreciated				
Land and land improvements	$ 66,903	$ -	$ -	$ 66,903
Construction in progress	-	393,228	-	393,228
Subtotal	66,903	393,228	-0-	460,131

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance Jan. 1, 2006	Additions and Reclassifications	Deletions	Balance Dec. 31, 2006
Capital Assets Being Depreciated/Depleted				
Buildings	$ 429,111	$ 1,555	$ -	$ 430,666
Equipment -				
Road	7,420,874	311,027	9,978	7,721,923
Shop	174,242	-	-	174,242
Office	69,659	-	-	69,659
Engineer	73,639	87,689	1,595	159,733
Infrastructure - roads	43,566,024	2,992,685	506,666	46,052,043
Infrastructure - bridges	18,598,828	310,696	-	18,909,524
Depletable assets	55,450	-	-	55,450
Subtotal	70,387,827	3,703,652	518,239	73,573,240
Less Accumulated Depreciation/Depletion				
Buildings	368,204	10,761	-	378,965
Equipment -				
Road	5,433,112	688,091	4,239	6,116,964
Shop	74,505	13,045	-	87,550
Office	40,732	11,730	-	52,462
Engineer	66,394	4,978	66	71,306
Infrastructure - roads	14,258,599	2,276,194	506,666	16,028,127
Infrastructure - bridges	5,422,073	383,073	-	5,805,146
Depletion	55,450	-	-	55,450
Subtotal	25,719,069	3,387,872	510,971	28,595,970
Net Capital Assets Being Depreciated	44,668,758	315,780	7,268	44,977,270
Total Net Capital Assets	$44,735,661	$ 709,008	$ 7,268	$45,437,401

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	$ 706,114
Net Administrative Expense	22,491
Infrastructure	2,659,267
	$ 3,387,872

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, 2006:

NOTE D: LONG-TERM DEBT - CONTINUED

	Restated Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006	Amounts Due Within One Year
Governmental Activities					
Lease purchase agreements	$ 164,544	$ 267,102	$ 37,609	$ 394,037	$ 105,814
Vacation and sick leave	497,114	178,380	284,936	390,558	169,777
	$ 661,658	$ 445,482	$ 322,545	$ 784,595	$ 275,591

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

Lease purchase agreements, payable at December 31, 2006, are as follows:

The Commission purchased two International Tractor Trucks under a lease purchase agreement at a total cost of $267,102. The lease purchase agreement requires thirty-six consecutive monthly payments of $7,953, which include lease finance costs of 4.50% commencing in 2006.	$ 260,151
The Commission purchased two Loaders under a lease purchase agreement at a cost of $163,000. The lease purchase agreement requires forty-eight consecutive monthly payments of $1,009, which includes lease financing costs at a rate of 4.25%. At the end of the lease term, the Road Commission may purchase the Loaders for $88,306.	133,886
	$ 394,037

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. As of September 30, 2003, individual employees do not have vested rights upon termination of employment to receive payment for unused sick leave, however balances that had accumulated up to that date will be paid out to individual employees over a five year period.

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 $169,777 and a long-term liability of $220,781 at December 31, 2006.

The annual requirements to pay long-term debt principal and interest outstanding for the following installment contracts at December 31, 2006, are as follows:

Year Ending December 31,	Lease purchase agreements		
	Principal	Interest	Total
2007	$ 105,814	$ 15,262	$ 121,076
2008	108,775	10,513	119,288
2009	179,448	3,543	182,991
	$ 394,037	$ 29,318	$ 423,355

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, 2006, the Federal aid received and expended by the Road Commission was $223,673 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.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Road Commission has a master single employer defined contribution plan called The Sanilac County Money Purchase Plan. This defined contribution plan is administered by Pension Plan Service, Inc. and is available to all employees of the Road Commission. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who are at least 21 years old and have completed six months of service are eligible to participate.

Plan provisions require that the Road Commission contribute 8 percent of each active participant's compensation and do not allow for participant contributions. The Road Commission's contributions for each employee (and earnings allocated to the employee's account) are vested at the rate of 20 percent upon completing 2 years of service, plus an additional 20 percent for each year of the next 4 years of service. Road Commission contributions for and interest forfeited by employees who leave employment before full vesting are used to reduce the Road Commission's current period contribution requirement. The plan uses the accrual basis of accounting with investments stated at market.

The Road Commission's total payroll for the year ended December 31, 2006, was $2,485,959. The Road Commission's contributions were calculated using the covered compensation amount of $2,436,043. The Road Commission made the required contribution amounting to $194,884.

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

Sanilac County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

NOTE H: RISK MANAGEMENT - CONTINUED

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

Sanilac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. The Road Commission's employee medical benefits insurance is purchased through Blue Cross and Blue Shield.

At December 31, 2006, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

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 required supplementary information to the financial statements, the Sanilac County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Sanilac County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount Appropriated	Actual Amount Expended	Variance
General Operating Fund			
Primary Road	$ 3,375,750	$ 3,865,270	$ 489,520
Local Road	3,924,120	4,897,370	973,250
Administrative	255,150	341,856	86,706
Other	-	15,561	15,561

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements 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 are the various fund balance reserves as of December 31, 2006:

General Operating Fund	
Reserved for	
Inventory	$ 297,310
Prepaid expenditures	30,116
	$ 327,426

NOTE K: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Sanilac County Road Commission provides hospitalization medical coverage on a complimentary basis for any employee who retires after January 1, 1990, at age 55 with at least thirty years of service. At age 65, the employee receives supplemental coverage for himself or herself only.

For any employee who retires after age 62 and after January 1, 1990, Sanilac County Road Commission provides the retiree and his or her spouse with hospitalization medical coverage, provided however, that if the retiree's spouse, by virtue of his or her employment or otherwise, has the retiree as a covered beneficiary on his or her hospitalization medical coverage, the Road Commission will be under no obligation to provide coverage. At age 65 the retiree and or spouse coverage will be supplemental only.

The benefits are provided based on requirements of union contracts and are financed on a pay-as-you-go basis. For the year ended December 31, 2006, Sanilac County Road Commission expended $405,716 for 34 participants currently eligible to receive benefits.

UPCOMING REPORTING CHANGE

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

NOTE L: RESTATED NET ASSETS

The Commission has retroactively adjusted lease purchase agreement payable balances, and related accrued interest payable, to reflect corrections of overstated balances. Net assets as of December 31, 2005 were $45,016,282. The adjustment of $1,019,159 results in restated net assets as of December 31, 2005 of $46,035,441.

REQUIRED SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - SCHEDULE OF REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Property taxes	$ 1,775,000	$ 1,842,000	$ 1,832,223	$ (9,777)
Licenses and permits				
Permits	33,000	33,000	30,785	(2,215)
Intergovernmental				
Federal sources				
Critical Bridge	-	193,100	193,068	(32)
Economic development "D" funds	-	7,825	7,824	(1)
Surface transportation program	200,000	23,000	22,781	(219)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	2,404,350	2,406,100	2,659,022	252,922
Local road	2,509,800	2,509,800	2,770,260	260,460
Critical Bridge	-	59,510	59,449	(61)
Economic development funds				
Rural primary "D" funds	-	2,800	2,800	-0-
Local sources				
City and village contributions	10,000	16,500	7,849	(8,651)
Township contributions	1,525,000	1,525,000	1,505,943	(19,057)
Other	6,500	-	638	638
Total intergovernmental	6,665,650	6,753,635	7,239,634	485,999
Charges for services				
State Trunkline maintenance				
Direct charges	908,061	913,802	737,459	(176,343)
Indirect charges	50,000	414,350	415,252	902
Material sales	18,000	22,000	20,165	(1,835)
Salvage sales	15,000	15,000	7,854	(7,146)
Total charges for services	991,061	1,365,152	1,180,730	(184,422)
Interest	63,000	75,550	79,846	4,296
Other	-	-	2,601	2,601
TOTAL REVENUES	9,527,711	10,069,337	10,365,819	296,482
OTHER FINANCING SOURCES				
Capital leases	200,000	267,150	267,102	(48)
TOTAL REVENUES AND OTHER FINANCING SOURCES	$ 9,727,711	$ 10,336,487	$ 10,632,921	$ 296,434

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary Road				
Routine and preventative maintenance	$ 3,325,000	$ 3,335,050	$ 3,825,165	$ (490,115)
Preservation - structural improvements	60,000	40,700	40,105	595
Total Primary Road	3,385,000	3,375,750	3,865,270	(489,520)
Local Road				
Routine and preventative maintenance	3,550,000	3,591,095	4,570,706	(979,611)
Preservation - structural improvements	90,000	333,025	326,664	6,361
Total Local Road	3,640,000	3,924,120	4,897,370	(973,250)
State Trunkline				
Maintenance	958,061	1,328,152	1,211,735	116,417
Equipment				
Direct	1,050,000	1,200,000	1,380,394	(180,394)
Indirect	1,150,000	1,162,000	889,664	272,336
Operating	450,000	507,000	478,673	28,327
Less: Equipment rental	(2,100,000)	(2,364,000)	(2,381,251)	17,251
Total Equipment	550,000	505,000	367,480	137,520
Administrative				
Administration	350,000	350,000	452,661	(102,661)
Less:				
Handling charges	(5,000)	(5,000)	(7,204)	2,204
Overhead state	(88,250)	(88,250)	(103,601)	15,351
Purchase discount	(1,600)	(1,600)	-	(1,600)
Total Administrative	255,150	255,150	341,856	(86,706)
Capital Outlay				
Capital outlay	600,000	600,000	535,246	64,754
Less:				
Depreciation and depletion	(600,000)	(600,000)	(737,205)	137,205
Equipment retirements	(25,000)	(25,000)	-	(25,000)
Total Capital Outlay	(25,000)	(25,000)	(201,959)	176,959
Debt Service				
Principal payments	165,000	160,250	37,610	122,640
Interest payments	35,000	48,565	6,566	41,999
Total Debt Service	200,000	208,815	44,176	164,639
Other				
Other	-	-	15,561	(15,561)
TOTAL EXPENDITURES	$ 8,963,211	$ 9,571,987	$ 10,541,489	$ (969,502)

OTHER SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	$ 5,071,535	$ 4,626,706	$ 1,183,578	$ 10,881,819
TOTAL EXPENDITURES	4,171,684	5,142,369	1,227,436	10,541,489
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	899,851	(515,663)	(43,858)	340,330
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(516,000)	516,000	-	-0-
Capital leases	267,102	-	-	267,102
TOTAL OTHER FINANCING SOURCES (USES)	(248,898)	516,000	-0-	267,102
NET CHANGE IN FUND BALANCE	650,953	337	(43,858)	607,432
Fund balance, beginning of year	1,078,665	525,898	357,411	1,961,974
Fund balance, end of year	$ 1,729,618	$ 526,235	$ 313,553	$ 2,569,406

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Taxes	$ 1,832,223	$ -	$ -	$ 1,832,223
Licenses and permits				
Permits	-	-	30,785	30,785
Intergovernmental				
Federal sources	30,605	193,068	-	223,673
State sources	2,667,222	2,834,309	-	5,501,531
Local sources	638	1,513,792	-	1,514,430
Total intergovernmental	2,698,465	4,541,169	-0-	7,239,634
Charges for services				
State Trunkline				
Direct charges	-	-	737,459	737,459
Indirect charges	-	-	415,252	415,252
Material sales	-	20,165	-	20,165
Salvage sales	-	7,854	-	7,854
Total charges for services	-0-	28,019	1,152,711	1,180,730
Interest	24,847	54,999	-	79,846
Other	-	2,519	82	2,601
TOTAL REVENUES	4,555,535	4,626,706	1,183,578	10,365,819
OTHER FINANCING SOURCES				
Transfers in	-	516,000	-	516,000
Capital leases	267,102	-	-	267,102
TOTAL OTHER FINANCING SOURCES	267,102	516,000	-0-	783,102
TOTAL REVENUES AND OTHER FINANCING SOURCES	$ 4,822,637	$ 5,142,706	$ 1,183,578	$ 11,148,921

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Routine and preventative maintenance	$ 3,825,165	$ 4,570,706	$ -	$ 8,395,871
Preservation - structural improvements	40,105	326,664	-	366,769
State Trunkline	-	-	1,211,735	1,211,735
Equipment Expense - Net	94,286	190,174	83,020	367,480
Administrative Expense - Net	159,803	182,052	-	341,855
Capital Outlay - Net	3,275	(127,227)	(78,006)	(201,958)
Debt Service	44,176	-	-	44,176
Other	4,874	-	10,687	15,561
TOTAL EXPENDITURES	4,171,684	5,142,369	1,227,436	10,541,489
OTHER FINANCING USES				
Transfers out	516,000	-	-	516,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	$ 4,687,684	$ 5,142,369	$ 1,227,436	$ 11,057,489

Sanilac County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2006

	Balance Jan. 1, 2006	Additions and Reclassifications	Deletions	Balance Dec. 31, 2006
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	$ 66,903	$ -	$ -	$ 66,903
Construction in progress	-	393,228	-	393,228
Subtotal	66,903	393,228	-0-	460,131
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	429,111	1,555	-	430,666
Equipment				
Road	7,420,874	311,027	9,978	7,721,923
Shop	174,242	-	-	174,242
Office	69,659	-	-	69,659
Engineer	73,639	87,689	1,595	159,733
Infrastructure - Roads	43,566,024	2,992,685	506,666	46,052,043
Infrastructure - Bridges	18,598,828	310,696	-	18,909,524
Depletable assets	55,450	-	-	55,450
Subtotal	70,387,827	3,703,652	518,239	73,573,240
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	368,204	10,761	-	378,965
Equipment				
Road	5,433,112	688,091	4,239	6,116,964
Shop	74,505	13,045	-	87,550
Office	40,732	11,730	-	52,462
Engineer	66,394	4,978	66	71,306
Infrastructure - Roads	14,258,599	2,276,194	506,666	16,028,127
Infrastructure - Bridges	5,422,073	383,073	-	5,805,146
Depletion	55,450	-	-	55,450
Subtotal	25,719,069	3,387,872	510,971	28,595,970
Net Capital Assets Being Depreciated	44,668,758	315,780	7,268	44,977,270
Total Net Capital Assets	$ 44,735,661	$ 709,008	$ 7,268	$ 45,437,401

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

Board of County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the component unit financial statements of the governmental activities, the major fund, and the aggregate remaining information of the Sanilac County Road Commission as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental 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 Sanilac County Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control 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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2006-1 and 2006-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. 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 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2006-3.

We noted certain matters that we reported to management of the Sanilac County Road Commission in a separate letter dated June 7, 2007.

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

This report is intended solely for the information and use of management, the members of the Board of Commissioners of the Sanilac County Road Commission, and others within the organization, 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

June 7, 2007

Sanilac County Road Commission

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE

Findings Related to Internal Control Over the Financial Statements.

2006-1 Lack of Travel Policy

Condition: During the course of our audit, we noted that the Road Commission incurred travel expenses, but does not have a formal travel policy in place. This issue was noted and reported in our audit comments last year.

Criteria: The Road Commission must be able to authorize and report financial data reliably to assure sound internal control over the financial reporting.

Effect: The Road Commission incurred significant travel expenses with no policy to authorize those transactions.

Recommendation: We recommend the Commission adopt and implement a formal policy related to travel. This policy should address specific dollar limits for meals, hotels, and airfare for overnight travel, and reimbursement policies and procedures for out-of-pocket expenses, including fuel and mileage.

Corrective Action Response: Sanilac County Road Commission approved an amended travel policy with the specifics as recommended by the previous audit on April 18, 2007.

2006-2 Lack of Investment Policy

Condition: During the course of our audit and through discussions with administration, it was noted that the Road Commission has not amended their investment policy to addresses the reporting requirements of GASB Statement No. 40. This issue was noted and reported in our audit comments last year.

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 40 requires all government to adopt or amend their investment policy to address deposit and investment risks. This statement was effective for the year ended December 31, 2005 for the Road Commission.

Effect: The Road Commission holds a significant amount of investments. These resources are necessary for the delivery of the Road Commission's services and programs or to carry out its fiduciary responsibilities. By not having an investment policy that addresses deposit and investment risks, the Road Commission is not in compliance with GASB Statement No. 40.

Recommendation: We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Road Commission's financial statements by GASB Statement No. 40.

Corrective Action Response: The Sanilac County Road Commission adopted an amended investment policy on April 18, 2007.

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

2006-3 Unfavorable Budget Variances

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

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 Sanilac 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 to alleviate future unfavorable budget variances.

Corrective Action Response: The budget is reviewed monthly and adjustments are made when expenditures are approved by the Board. The Road Commission is also using a new budget program to more closely monitor the primary and local road maintenance expenditures.

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MANAGEMENT LETTER

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

Dear Commissioners:

As you know, we have recently completed our audit of the records of the Sanilac County Road Commission for the year ended December 31, 2006. 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 Commission should adopt and implement a conflict of interest policy.

   During the course of our audit, we noted the Commission has not developed or implemented a policy concerning conflict of interest as part of the policy manual. A conflict of interest policy will clarify the Commission's position on ethical behavior and communicate that position to employees and board members. A similar issue was noted and reported in our audit comments last year.

   We suggest the Commission develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and board members. The Commission should also obtain conflict of interest disclosure statements from its employees and board members.

2. 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 Sanilac County Road Commission for the year ending December 31, 2009.

2. 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 financial statements, and this report does not affect our report on the component unit financial statements dated June 7, 2007.

This report is intended solely for the use of management and the Board of County Road Commissioners of Sanilac County and is not intended to 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 theses suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 7, 2007