

**Shiawassee County Road Commission
Corunna, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Shiawassee County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Shiawassee County
Corunna, Michigan

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Shiawassee County Road Commission as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2008, on our consideration of the Shiawassee County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 22, 2008

Shiawassee County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of Shiawassee 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 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 - 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 Shiawassee County Road Commission:

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

REPORTING THE SHIAWASSEE 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 one fund, the general operations fund. All of the Shiawassee County Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules is located on pages 17 through 19. The other supplementary information begins on page 20 and provides detailed information about the major fund.

Shiawassee County Road Commission

Management's Discussion and Analysis

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 Shiawassee 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 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 decreased \$198,775 from \$51,822,521 to \$51,623,746 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.

The primary reason for the decrease of net assets in 2007 was due to increased expenditures for road maintenance seal coating projects.

Net assets as of years ended December 31, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 4,695,647	\$ 5,736,229
Capital assets	<u>47,732,684</u>	<u>47,171,889</u>
Total assets	52,428,331	52,908,118
Current liabilities	384,715	352,945
Noncurrent liabilities	<u>419,870</u>	<u>732,652</u>
Total liabilities	<u>804,585</u>	<u>1,085,597</u>
Invested in capital assets, net related of debt	47,567,684	46,846,889
Restricted for county roads	<u>4,056,062</u>	<u>4,975,632</u>
Total net assets	<u>\$ 51,623,746</u>	<u>\$ 51,822,521</u>

Changes in Net Assets

The following table presents comparison between 2007 and 2006 year data.

Shiawassee County Road Commission

Management's Discussion and Analysis

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

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 1,420,242	\$ 905,720
Operating grants and contributions	8,025,691	7,573,482
Capital grants and contributions	779,836	435,354
General Revenues		
Interest	207,593	174,756
Other	59,140	3,406
Special item		
(Loss) on equipment disposal	<u>-</u>	<u>(107,874)</u>
Total Revenues	10,552,502	8,984,844
Expenses		
Primary roads	2,660,596	1,537,243
Local roads	2,408,517	1,821,154
State trunkline	1,344,118	666,809
Equipment - net	417,605	926,952
Administrative - net	623,478	574,784
Infrastructure depreciation	3,294,532	3,201,553
Interest expense	<u>2,431</u>	<u>7,936</u>
Total Expenses	<u>10,751,277</u>	<u>8,736,431</u>
Increase in Net Assets	<u><u>\$(198,775)</u></u>	<u><u>\$ 248,413</u></u>

The Shiawassee County 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 decreased \$1,019,517 compared to an increase of \$267,363 in the fund balance for the year ended December 31, 2006. Total operating revenues were \$10,497,531, an increase of \$1,404,813 compared to the year ended December 31, 2006. This difference in revenue resulted primarily from an increase in Charges for Services of \$440,287, Critical Bridge participation of \$413,869 and State Grants of \$491,497.

Total expenditures were \$11,517,048, an increase of \$2,691,693 as compared to last year. This change in expenditures is primarily due to an increase in primary and local road maintenance of \$1,224,802, primary bridge reconstruction in the amount of \$992,819 and Capital Outlay \$1,230,229. There was also a decrease in primary preservation of \$358,755 and local bridge reconstruction of \$605,113.

Shiawassee County Road Commission

Management's Discussion and Analysis

A summary of changes in the fund level financial information of the Operating Fund is as follows:

	12/31/07 <u>Operating Fund</u>	12/31/06 <u>Operating Fund</u>
Revenues		
License and permits	\$ 26,452	\$ 34,042
Federal grants	267,426	348,283
State grants	6,746,670	5,857,303
Contributions from local units	1,745,580	1,803,252
Charges for services	1,378,950	855,928
Interest and rents	222,433	190,504
Other	<u>110,020</u>	<u>3,406</u>
Total Revenues	10,497,531	9,092,718
Expenditures		
Primary road	4,875,228	3,404,414
Local road	3,765,872	3,926,687
State trunkline	1,344,118	864,645
Equipment - net	(25,138)	375,295
Administrative - net	520,818	522,424
Capital outlay	870,755	(431,655)
Debt service	<u>165,395</u>	<u>163,545</u>
Total Expenditures	<u>11,517,048</u>	<u>8,825,355</u>
Excess of Revenues over Expenditures	(1,019,517)	267,363
Fund Balance - beginning	<u>5,245,395</u>	<u>4,978,032</u>
Fund Balance - ending	<u>\$ 4,225,878</u>	<u>\$ 5,245,395</u>

BUDGETARY HIGHLIGHTS

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

The final amended revenue budget for 2007 was \$119,776 greater than the original budget. The actual revenue recognized during 2007 was greater than the final amended budget by \$481,839 mainly due to State Trunkline Non-Maintenance Revenue.

The final amended expenditure budget for 2007 was \$1,254,404 greater than the original budget primarily due to investments in Capital Assets. The actual expenditures recognized during 2007 were more than the final amended budget by \$31,269. This was primarily due to various favorable and unfavorable variances in expenditure line items throughout the General Operating Fund.

Shiawassee County Road Commission

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2007, the Road Commission had invested \$47,732,684 in capital assets. This amount represents a net increase (including additions, deductions, and reclassifications) of \$560,795 as follows:

	<u>2007</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Land and improvements	\$ 595,381	\$ 225,381
Infrastructure - land improvements	<u>4,390,586</u>	<u>4,378,866</u>
Subtotal	4,985,967	4,604,247
Capital Assets Being Depreciated		
Buildings	2,955,023	2,180,872
Equipment	6,376,894	6,346,547
Depletable assets	153,402	153,402
Infrastructure	<u>70,146,977</u>	<u>67,880,672</u>
Subtotal	<u>79,632,296</u>	<u>76,561,493</u>
Total Capital Assets	84,632,263	81,165,740
Total Accumulated Depreciation	<u>(36,885,579)</u>	<u>(33,993,851)</u>
Total Net Capital Assets	<u>\$ 47,732,684</u>	<u>\$ 47,171,889</u>

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

Land and improvements	\$ 370,000
Infrastructure - land improvements	46,022
Buildings	774,151
Equipment	
Road	223,666
Shop	2,468
Infrastructure	
Roads	2,591,081
Bridges	<u>435,354</u>
	<u>\$ 4,442,742</u>

During 2007, the Road Commission traded in and/or disposed of equipment (road, shop, office and engineer) with a purchase amount of \$995,917 related depreciation of \$939,339 and net book loss of \$16,578.

Debt

As of December 31, 2007, the Road Commission had \$165,000 in bonds versus \$325,000 last year, a decrease of 51% as shown below:

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% of Change</u>
Bonds Payable	<u>\$ 165,000</u>	<u>\$ 325,000</u>	<u>\$ (160,000)</u>	<u>(51%)</u>

Other obligations include accrued compensated absences related to vacation pay and sick leave and related payroll taxes in the amount of \$275,034 as of December 31, 2007. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 55% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$5,059,000, 5.38% less Michigan Transportation Fund revenues in 2008. The Road Commission received approximately 16.5% 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. During 2008, we expect to receive at least \$621,000 in federal and state aid for road projects. The above items were considered when adopting the budget for 2008. Amounts available for appropriation in the budget are \$8,854,000, a decrease of \$1,198,531 over the 2007 budget of \$10,052,531.

CONTACTING THE 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 Shiawassee County Road Commission's administrative offices at 701 W. Corunna Avenue, Corunna, Michigan 48817.

BASIC FINANCIAL STATEMENTS

Shiawassee County Road Commission

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,533,181
Investments	1,677,621
Interest receivable	2,936
Due from other governmental units	
State	983,665
Local	165,359
Inventory	<u>332,885</u>
Total current assets	4,695,647
Noncurrent assets	
Capital assets not being depreciated	4,985,967
Capital assets, net of accumulated depreciation	<u>42,746,717</u>
Total noncurrent assets	<u>47,732,684</u>
TOTAL ASSETS	52,428,331
LIABILITIES	
Current liabilities	
Accounts payable	48,692
Accrued liabilities	60,376
Accrued interest payable	633
Current portion of compensated absences	110,014
Current portion of long-term debt	<u>165,000</u>
Total current liabilities	384,715
Noncurrent liabilities	
Advances - State of Michigan	254,850
Noncurrent portion of compensated absences	<u>165,020</u>
Total noncurrent liabilities	<u>419,870</u>
TOTAL LIABILITIES	<u>804,585</u>
NET ASSETS	
Invested in capital assets, net of related debt	47,567,684
Restricted for County Roads	<u>4,056,062</u>
TOTAL NET ASSETS	<u>\$ 51,623,746</u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

	<u>Governmental Activities</u>
Program Expenses	
Primary Road	\$ 2,660,596
Local Road	2,408,517
State Trunkline	1,344,118
Equipment - net	417,605
Administrative - net	623,478
Infrastructure depreciation	3,294,532
Interest expense	<u>2,431</u>
 TOTAL PROGRAM EXPENSES	 10,751,277
Program Revenues	
Charges for services	1,420,242
Operating grants and contributions	8,085,691
Capital grants and contributions	<u>779,836</u>
 TOTAL PROGRAM REVENUES	 <u>10,285,769</u>
 NET PROGRAM (EXPENSES)	 <u>(465,508)</u>
General Revenues	
Interest	207,593
Other	<u>59,140</u>
 CHANGE IN NET ASSETS	 <u>(198,775)</u>
Net assets, beginning of the year	<u>51,822,521</u>
Net assets, end of the year	<u><u>\$ 51,623,746</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission
GOVERNMENTAL FUND BALANCE SHEET

December 31, 2007

	Governmental Fund Types
	General Operating
ASSETS	
Cash and cash equivalents	\$ 1,533,181
Investments	1,677,621
Interest receivable	2,936
Due from other governmental units	
State	983,665
Local	165,359
Inventory	332,885
TOTAL ASSETS	\$ 4,695,647
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 48,692
Accrued liabilities	60,376
Advances - State of Michigan	254,850
Deferred revenue	105,851
TOTAL LIABILITIES	469,769
FUND EQUITY	
Fund balance	
Reserved for primary road	481,850
Reserved for local road	2,002,965
Unreserved - undesignated	1,741,063
TOTAL FUND EQUITY	4,225,878
TOTAL LIABILITIES AND FUND EQUITY	\$ 4,695,647

See accompanying notes to financial statements.

Shiawassee County Road Commission

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

December 31, 2007

Total fund balance - governmental funds \$ 4,225,878

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 funds.

The cost of capital assets is	\$ 84,618,263	
Accumulated depreciation is	<u>(36,885,579)</u>	
Capital assets, net		47,732,684

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

Deferred revenue		105,851
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist of:

Bonds payable	165,000	
Accrued interest payable	633	
Compensated absences	<u>275,034</u>	
		<u>(440,667)</u>

Net assets of governmental activities \$ 51,623,746

See accompanying notes to financial statements.

Shiawassee County Road Commission

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

Year Ended December 31, 2007

	General Operating Fund
REVENUES	
License and permits	\$ 26,452
Intergovernmental	8,759,676
Charges for services	1,378,950
Interest and rents	222,433
Other	<u>110,020</u>
TOTAL REVENUES	10,497,531
EXPENDITURES	
Current	
Primary Road	4,875,228
Local Road	3,765,872
State Trunkline	1,344,118
Equipment - net	(25,138)
Administrative - net	520,818
Capital outlay	870,755
Debt Service	<u>165,395</u>
TOTAL EXPENDITURES	<u>11,517,048</u>
CHANGE IN FUND BALANCE	(1,019,517)
Fund balance, beginning of year	<u>5,245,395</u>
Fund balance, end of year	<u>\$ 4,225,878</u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

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

Year Ended December 31, 2007

Net change in fund balances - total governmental funds **\$ (1,019,517)**

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

Capital outlays are reported as expenditures in 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	\$ 4,442,742	
Building and equipment depreciation	(536,535)	
Infrastructure depreciation	<u>(3,294,532)</u>	
Excess of capital outlay over depreciation expense		611,675

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental fund, 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. (50,880)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 105,851

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement - 2004 MTF Refunding Bonds	160,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

Decrease in accrued interest payable	2,964	
(Increase) in accrued compensated absences	<u>(8,868)</u>	
		<u>(5,904)</u>

Change in net assets of governmental activities **\$ (198,775)**

See accompanying notes to financial statements.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

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

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Shiawassee County and maintains over 1,094 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 Shiawassee County Road Commission. The Commission is considered a component unit of Shiawassee County, Michigan and is discretely presented in Shiawassee County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Corunna, 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

3. Measurement Focus

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

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

4. Basis of Accounting

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

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

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

5. Budgets and Budgetary Accounting

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

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Commission's checking accounts, imprest cash, and short-term investments with an original maturity of 90 days or less.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Inventory

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Shiawassee County Road Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 required major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized.

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 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

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

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 527,960	\$ 678,152
Savings and money market accounts	1,005,171	1,005,171
Certificates of deposit	<u>1,677,621</u>	<u>1,677,621</u>
	<u>\$ 3,210,752</u>	<u>\$ 3,360,944</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2007, the Commission's accounts were insured by the FDIC for \$300,000 and the amount of \$3,060,944 was uninsured and uncollateralized.

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

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 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 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 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 following summarizes the categorization of these amounts as of December 31, 2007:

Cash and cash equivalents	\$ 1,533,181
Investments	<u>1,677,621</u>
	<u>\$ 3,210,802</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CAPITAL ASSETS

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

	<u>Balance</u> <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2007</u>
Capital assets not being depreciated				
Land and land improvements	\$ 225,381	\$ 370,000	\$ -	\$ 595,381
Infrastructure - land improvements	<u>4,378,866</u>	<u>46,022</u>	<u>(34,302)</u>	<u>4,390,586</u>
Subtotal	4,604,247	416,022	(34,302)	4,985,967
Capital assets being depreciated/depleted				
Buildings	2,180,872	774,151	-	2,955,023
Equipment -				
Road	6,031,979	223,666	(194,227)	6,061,418
Shop	121,235	2,468	-	123,703
Office	126,410	-	(1,560)	124,850
Engineer	66,923	-	-	66,923
Infrastructure - roads	51,277,368	2,591,081	(751,862)	53,116,587
Infrastructure - bridges	16,603,304	435,354	(8,268)	17,030,390
Depletable assets	<u>153,402</u>	<u>-</u>	<u>-</u>	<u>153,402</u>
Subtotal	76,561,493	4,026,720	(955,917)	79,632,296
Less Accumulated Depreciation/Depletion				
Buildings	(847,165)	(94,859)	-	(942,024)
Equipment -				
Road	(5,051,383)	(422,818)	185,917	(5,288,284)
Shop	(63,667)	(10,388)	-	(74,055)
Office	(111,054)	(5,336)	1,560	(114,830)
Engineer	(57,790)	(3,134)	-	(60,924)
Infrastructure - roads	(23,704,293)	(2,943,925)	751,862	(25,896,356)
Infrastructure - bridges	(4,005,097)	(350,607)	-	(4,355,704)
Depletion	<u>(153,402)</u>	<u>-</u>	<u>-</u>	<u>(153,402)</u>
Subtotal	<u>(33,993,851)</u>	<u>(3,831,067)</u>	<u>939,339</u>	<u>(36,885,579)</u>
Net Capital Assets				
Being Depreciated	<u>42,567,642</u>	<u>195,653</u>	<u>(16,578)</u>	<u>42,746,717</u>
Total Net Capital Assets	<u>\$47,171,889</u>	<u>\$ 611,675</u>	<u>\$(50,880)</u>	<u>\$47,732,684</u>

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 422,818
Indirect Equipment	19,925
Net Administrative Expense	93,792
Infrastructure	<u>3,294,532</u>
	<u>\$ 3,831,067</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D: LONG-TERM DEBT

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

	<u>Balance</u> <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2007</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
Governmental Activities					
2004 MTF Refunding Bonds	\$ 325,000	\$ -	\$ 160,000	\$ 165,000	\$ 165,000
Compensated Absences	<u>266,166</u>	<u>213,415</u>	<u>204,547</u>	<u>275,034</u>	<u>110,014</u>
	<u>\$ 591,166</u>	<u>\$ 213,415</u>	<u>\$ 364,547</u>	<u>\$ 440,034</u>	<u>\$ 275,014</u>

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

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

\$490,000 Michigan Transportation Refunding Bond, Series 2004 A, dated February 18, 2004 due in an annual installment of \$165,000 on May 1, 2008, with interest of 2.3 percent, payable semi-annually. \$ 165,000

Compensated Absences - Vacation and Sick Leave

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

Accumulated vacation and sick leave and related payroll taxes 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 \$110,014 and a long-term liability of \$165,020 at December 31, 2007.

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

<u>Year Ending</u> <u>December 31,</u>	<u>2004 MTF Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	<u>\$ 165,000</u>	<u>\$ 1,898</u>

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2007, the Road Commission of Shiawassee County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System 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 System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

- Age 50 with 25 or more years of credited service
- Age 55 with 15 or more years of credited service
- Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
- Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Commission is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2007 the Commission's annual pension cost of \$305,010 for the plan was equal to the Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2005, using the entry age normal cost funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. 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 or her projected benefit.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$10,527,570	\$10,819,743	\$11,141,314
Actuarial accrued liability (AAL)	13,846,831	14,606,711	15,240,941
Unfunded AAL	3,319,261	3,786,968	4,099,627
Funded ratio	76%	74%	73%
Covered payroll	2,118,124	2,073,658	2,025,001
UAAL as a percentage of covered payroll	157%	183%	202%
Annual pension cost	286,053	256,964	305,010
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which 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.

There are certain legal actions potentially pending against the Commission. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the Commission's potential liability, if any. Those actions for which a reasonable estimate can be determined of the Commission's potential liability and that would not be covered by insurance and reserves, if any, are considered by Management and Legal Counsel to be immaterial.

NOTE H: RISK MANAGEMENT

The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, trunkline, excess liability, auto liability, directors' and officers' liability, errors and omissions and physical damage. The Road Commission participates in the County Road Association Self-Insurance Fund for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required.

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

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

	<u>Amended Amount Appropriated</u>	<u>Actual Amount Expended</u>	<u>Variance</u>
General Operating Fund			
State Trunkline			
Maintenance	\$ 939,774	\$ 1,009,137	\$ 69,363
Nonmaintenance	-	334,981	334,981
Capital outlay - net	741,000	870,755	129,655

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, 2007:

General Operating Fund	
Reserved for	
Primary Road	\$ 481,850
Local Road	<u>2,002,965</u>
	<u>\$ 2,484,815</u>

NOTE K: FLEXIBLE BENEFITS PLAN

In November 1993 the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by Shiawassee County Road Commission.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE L: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Shiawassee County Road Commission provides hospitalization and medical coverage on a complimentary basis, as follows, for employees who retire after January 1, 1975.

- Employees retiring between January 1, 1975 and December 31, 1991 will receive employer paid coverage for the retiree only. Coverage will be what was in effect at the time of retirement.
- Employees retiring between January 1, 1992 and December 31, 1998 will receive employer paid coverage for the retiree and his or her spouse. Spouse shall be the person the employee was married to at the time of retirement. Coverage will be what was in effect at the time of retirement.
- Employees retiring on or after January 1, 1999 and who have a seniority date prior to December 31, 1998 will receive employer paid coverage for the retiree only, unless they have a minimum of 25 years of seniority and are at least 55 years of age, then the employer will also pay for spouse coverage. Spouse shall be the person the employee was married to at the time of retirement. Coverage will be what was in effect as of August 1, 1998.
- Employees hired after December 31, 1998 will not receive employer paid health care coverage upon retirement. They may continue their coverage by paying the monthly premium.

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, 2007, Shiawassee County Road Commission expended \$494,706 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, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 32,750	\$ 27,000	\$ 26,452	\$ (548)
Intergovernmental				
Federal sources				
Critical Bridge	876,983	1,239,000	267,426	(971,574)
State sources				
Motor Vehicle Highway Funds				
Engineering	9,718	10,000	10,000	-0-
Primary road	3,411,775	3,425,000	3,443,361	18,361
Local road	1,680,418	1,685,000	1,701,060	16,060
Primary urban road	131,846	135,000	132,864	(2,136)
Local urban road	59,141	60,000	59,598	(402)
Critical Bridge	-	-	479,172	479,172
Negotiated contract	395,000	429,118	920,615	491,497
Local sources				
Township contributions	2,246,511	1,845,000	1,738,944	(106,056)
Other contributions	5,000	6,000	6,636	636
Total intergovernmental	8,816,392	8,834,118	8,759,676	(74,442)
Charges for services				
State Trunkline maintenance	939,774	939,774	1,038,952	99,178
State Trunkline nonmaintenance	-	-	334,981	334,981
Salvage sales	500	4,800	5,017	217
Total charges for services	940,274	944,574	1,378,950	434,376
Interest and rents	106,500	210,000	222,433	12,433
Other				
Sale of equipment	-	-	110,020	110,020
TOTAL REVENUES	<u>\$ 9,895,916</u>	<u>\$ 10,015,692</u>	<u>\$ 10,497,531</u>	<u>\$ 481,839</u>

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Maintenance	\$ 1,876,365	\$ 2,600,000	\$ 2,519,462	\$ 80,538
Preservation - Structural improvements	3,061,225	2,450,000	2,355,766	94,234
Total primary road	4,937,590	5,050,000	4,875,228	174,772
Local road				
Maintenance	1,983,810	2,425,000	2,343,867	81,133
Preservation - Structural improvements	2,048,888	1,489,000	1,422,005	66,995
Total local road	4,032,698	3,914,000	3,765,872	148,128
State Trunkline				
Maintenance	939,774	939,774	1,009,137	(69,363)
Nonmaintenance	-	-	334,981	(334,981)
Total state trunkline	939,774	939,774	1,344,118	(404,344)
Equipment				
Direct	1,000,000	1,300,000	1,154,907	145,093
Indirect	480,000	500,000	523,344	(23,344)
Operating	290,000	320,000	332,377	(12,377)
Less: Equipment rental	(1,800,000)	(2,000,000)	(2,035,766)	35,766
Total equipment	(30,000)	120,000	(25,138)	145,138
Administrative				
Administration	689,472	675,000	649,419	25,581
Less:				
Handling charges	(500)	(990)	(1,117)	127
Overhead - State	(82,554)	(110,000)	(119,072)	9,072
Purchase discount	(7,000)	(8,500)	(8,412)	(88)
Total administrative	599,418	555,510	520,818	34,692

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL - CONTINUED

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES - CONTINUED				
Capital outlay				
Capital outlay	\$ 296,500	\$ 1,375,700	\$ 1,407,070	\$ (31,370)
Less:				
Depreciation and depletion	(600,000)	(524,600)	(536,315)	11,715
Trade in allowance	(110,000)	(110,000)	-	(110,000)
Total capital outlay	(413,500)	741,100	870,755	(129,655)
Debt service				
Principal payments	160,000	160,000	160,000	-0-
Interest payments	5,395	5,395	5,395	-0-
Total debt service	165,395	165,395	165,395	-0-
TOTAL EXPENDITURES	<u>\$ 10,231,375</u>	<u>\$ 11,485,779</u>	<u>\$ 11,517,048</u>	<u>\$ (31,269)</u>

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2007

TOTAL REVENUES	\$ 10,497,531
TOTAL EXPENDITURES	<u>11,517,048</u>
CHANGE IN FUND BALANCE	(1,019,517)
Fund balance, beginning of year	<u>5,245,395</u>
Fund balance, end of year	<u><u>\$ 4,225,878</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 5,328,101	\$ 3,061,561	\$ 2,107,869	\$ 10,497,531
TOTAL EXPENDITURES	<u>5,160,324</u>	<u>3,981,793</u>	<u>2,374,931</u>	<u>11,517,048</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	167,777	(920,232)	(267,062)	(1,019,517)
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	716,584	-	716,584
Optional transfers out	<u>(716,584)</u>	<u>-</u>	<u>-</u>	<u>(716,584)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(716,584)</u>	<u>716,584</u>	<u>-0-</u>	<u>-0-</u>
CHANGE IN FUND BALANCE	(548,807)	(203,648)	(267,062)	(1,019,517)
Fund balance, beginning of year	<u>1,030,657</u>	<u>2,206,613</u>	<u>2,008,125</u>	<u>5,245,395</u>
Fund balance, end of year	<u>\$ 481,850</u>	<u>\$ 2,002,965</u>	<u>\$ 1,741,063</u>	<u>\$ 4,225,878</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 26,452	\$ 26,452
Intergovernmental				
Federal sources	259,926	7,500	-	267,426
State sources	4,491,209	1,763,964	491,497	6,746,670
Local sources	536,177	1,202,767	6,636	1,745,580
Total intergovernmental	5,287,312	2,974,231	498,133	8,759,676
Charges for services				
State Trunkline maintenance	-	-	1,038,952	1,038,952
State Trunkline nonmaintenance	-	-	334,981	334,981
Salvage sales	-	-	5,017	5,017
Total charges for services	-0-	-0-	1,378,950	1,378,950
Interest and rents	40,789	87,330	94,314	222,433
Other				
Gain on sale of equipment	-	-	110,020	110,020
TOTAL REVENUES	\$ 5,328,101	\$ 3,061,561	\$ 2,107,869	\$ 10,497,531

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Preservation -				
Structural improvements	\$ 2,355,766	\$ 1,422,005	\$ -	\$ 3,777,771
Maintenance	2,519,462	2,343,867	-	4,863,329
State Trunkline	-	-	1,344,118	1,344,118
Equipment Expense - Net	(8,745)	(11,056)	(5,337)	(25,138)
Administrative Expense - Net	293,841	226,977	-	520,818
Capital Outlay - Net	-	-	870,755	870,755
Debt Service	-	-	165,395	165,395
	<u>\$ 5,160,324</u>	<u>\$ 3,981,793</u>	<u>\$ 2,374,931</u>	<u>\$ 11,517,048</u>
TOTAL EXPENDITURES				

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2007

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 225,381	\$ 370,000	\$ -	\$ 595,381
Infrastructure - land improvements	4,378,866	46,022	(34,302)	4,390,586
Subtotal	4,604,247	416,022	(34,302)	4,985,967
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	2,180,872	774,151	-	2,955,023
Equipment				
Road	6,031,979	223,666	(194,227)	6,061,418
Shop	121,235	2,468	-	123,703
Office	126,410	-	(1,560)	124,850
Engineer	66,923	-	-	66,923
Infrastructure - Roads	51,277,368	2,591,081	(751,862)	53,116,587
Infrastructure - Bridges	16,603,304	435,354	(8,268)	17,030,390
Depletable assets	153,402	-	-	153,402
Subtotal	76,561,493	4,026,720	(955,917)	79,632,296
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(847,165)	(94,859)	-	(942,024)
Equipment				
Road	(5,051,383)	(422,818)	185,917	(5,288,284)
Shop	(63,667)	(10,388)	-	(74,055)
Office	(111,054)	(5,336)	1,560	(114,830)
Engineer	(57,790)	(3,134)	-	(60,924)
Infrastructure - Roads	(23,704,293)	(2,943,925)	751,862	(25,896,356)
Infrastructure - Bridges	(4,005,097)	(350,607)	-	(4,355,704)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(33,993,851)	(3,831,067)	939,339	(36,885,579)
Net Capital Assets Being Depreciated	42,567,642	195,653	(16,578)	42,746,717
Total Net Capital Assets	\$ 47,171,889	\$ 611,675	\$ (50,880)	\$ 47,732,684

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND 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
Shiawassee County
Corunna, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Shiawassee County Road Commission as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated May 22, 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 Shiawassee County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shiawassee County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shiawassee County Road 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. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

2007-1 MATERIAL JOURNAL ENTRIES

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

2007-1 MATERIAL JOURNAL ENTRIES - CONTINUED

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

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

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

Corrective Action Response: The Road Commission will be more efficient at recognizing material journal entries and make them in a timely manner.

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 Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shiawassee 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described below.

2007-2 BUDGETS

Condition: As noted in the financial statements, some of the activities of the Road Commission exceeded the amounts appropriated.

Criteria: It is a violation of Michigan Public Act 621 of 1978, as amended, for the Road Commission to incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Effect: The Road Commission has not maintained adequate control over budgetary compliance in accordance with State law.

Recommendation: We recommend the Road Commission monitor expenditures against adopted budgets on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

Corrective Action Response: The Road Commission will monitor the budget more closely and amendments will be made as necessary.

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

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 22, 2008