

# **Berrien County Road Commission**

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## **Financial Report With Additional Information**

**September 30, 2003**

# Berrien County Road Commission

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## Independent Auditor's Report

Board of Road Commissioners  
Berrien County Road Commission

We have audited the accompanying basic financial statements of the Berrien County Road Commission (a component unit of Berrien County, Michigan) as of and for the year ended September 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Berrien County Road Commission at September 30, 2003 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Road Commission adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, as of October 1, 2002.

The Management's Discussion and Analysis and the Required Supplementary Information presented on page 23 are not a required part of the basic financial statements, but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

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Berrien County Road Commission

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Berrien County Road Commission. This information has been subjected to the 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.

*Plante & Moran, PLLC*

December 8, 2003

# Berrien County Road Commission

## Management's Discussion and Analysis

This section of the Berrien County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year that ended on September 30, 2003. Please read it in conjunction with the Road Commission's financial statements, which follow this section.

### Financial Highlights

- The Road Commission's total net assets increased by \$8,025,560.
- Total revenue sources for the year of \$15.7 million exceeded expenditures of \$9.2 million by \$6.5 million before the inclusion of the contribution of infrastructure.
- \$7.7 million was invested in capital assets during the year.

### Overview of the Financial Statements

This annual report consists of a series of financial statements. The Governmental Funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of Governmental Fund revenue, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns tell us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding *revenue, expenditures and changes in fund balances*.

# Berrien County Road Commission

## Management’s Discussion and Analysis (Continued)

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

**Net Assets** - The Commission’s combined net assets increased during 2003 by \$8.0 million ending the year at \$14.0 million. The table below shows the composition of the Road Commission’s net assets at September 30, 2003.

	Governmental Activities	
	2003	2002
Current and other assets	\$ 6,723,644	\$ 8,317,770
Capital assets	<u>12,497,845</u>	<u>3,436,282</u>
Total assets	19,221,489	11,754,052
Long-term liabilities outstanding	3,678,073	4,180,130
Other liabilities	<u>1,489,894</u>	<u>1,545,960</u>
Total liabilities	5,167,967	5,726,090
Net assets:		
Invested in capital assets, net of related debt	8,621,707	(759,459)
Unrestricted	<u>5,431,815</u>	<u>6,787,421</u>
Total net assets	<b><u>\$ 14,053,522</u></b>	<b><u>\$ 6,027,962</u></b>

**Changes in Net Assets** - The Road Commission’s change in net assets was primarily due to the capitalization of current year infrastructure expenditures included in capital assets. Infrastructure consists of constructing or reconstructing roads, bridges, and intersections. Other changes include various revenue sources and expense categories as shown on the next page.

The Michigan Transportation Fund revenue is a statutory formula that is structured to share various fuel tax and license fees collected by the State of Michigan with Cities, Road Commissions and the Michigan Department of Transportation. This revenue item is the primary source of revenue for the Road Commission. For 2003, there was a slight increase in receipts. Interest income was reduced as a result of lower interest rates on a national scale. The variations in other revenues from year to year represent normal fluctuations in business activity.

# Berrien County Road Commission

## Management’s Discussion and Analysis (Continued)

The expenditures were generally consistent with last year. Maintenance, the largest of the categories, includes activities on all Local, Primary and State Trunkline roads. The variations of maintenance expenditures from year to year are generally a result of the variation of requirements for winter maintenance. The Road Commission maintains 993 miles of local roads, 476 miles of primary roads and, starting in 2003, 9.5 lane miles of state trunkline roads.

	Governmental Activities
	<u>2003</u>
Revenue:	
State aid - Act 51	\$ 10,388,379
Federal/state sources	4,013,660
Revenue from local governments	<u>2,842,456</u>
Total revenue	17,244,495
Expenses:	
Maintenance	\$ 7,270,005
Administrative	912,972
Depreciation	1,250,425
Interest and other	<u>(214,467)</u>
Total expenses	9,218,935
Change in net assets	<u><b>\$ 8,025,560</b></u>

# Berrien County Road Commission

## Management’s Discussion and Analysis (Continued)

### Financial Analysis of Commission’s Funds

The Road Fund balance ended the year at \$3,578,958 which is \$1,330,801 less than the previous year. Portions of this balance are reserved for anticipated needs in the near future. The total reserved fund balance is \$541,000. The remaining unreserved fund balance is \$3.0 million, which is down from the previous year amount of \$4.3 million.

### Road Fund Budgetary Highlights

The Road Commission amended its 2003 budget on two occasions during the year to reflect changes in budgeted projects and activities. The final expenditure budget was \$3.1 million lower than the original budget primarily as a result of deferred construction and heavy maintenance projects. These delayed expenditures of construction and heavy maintenance are partially funded by Federal and State Aid and is the cause for the reduced revenue from these sources.

### Capital Assets

The Commission had \$12,497,845 in net capital assets at the end of the year. Of particular interest is the inclusion of infrastructure assets for 2003. In the year 2002, infrastructure was not included as this is the first year of implementing GASB 34 which requires infrastructure reporting. Subsequent reports will include the previous twenty years of infrastructure activities.

### Capital Assets at Year-end (Net of Depreciation)

	Governmental Activities	
	2003	2002
Land and land improvements	\$ 2,811,235	\$ 238,746
Buildings and storage bins	661,187	689,005
Road equipment	1,919,834	2,112,071
Other equipment	398,367	396,460
Infrastructure	6,707,222	-
Total	<b>\$ 12,497,845</b>	<b>\$ 3,436,282</b>

# Berrien County Road Commission

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## Management's Discussion and Analysis (Continued)

### Economic Factors and Next Year's Budget

The general economic slowdown could result in the Michigan Transportation Fund (MTF) revenues being lower for 2004 than the actual amount received in 2003. Lower interest rates earned by cash reserves are not expected to increase at any significant pace. While neither is anticipated, a stronger recovery from the recession or any tightening on credit by the Federal Reserve Bank should have a positive effect on projected revenues.

World political conditions may affect crude oil prices that may affect the Road Commission's costs of fuel for operations and asphalt paving prices. A significant cost increase in these commodities may result in workload adjustments and project deferrals.

### Contacting the Road Commission's Financial Management

This financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Berrien County Road Commission, PO Box 768, Benton Harbor, MI 49023-0768 or visit our web page at: [www.roadcommission.com](http://www.roadcommission.com).

# Berrien County Road Commission

## Governmental Funds Balance Sheet/Statement of Net Assets September 30, 2003

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
<b>Assets</b>			
Cash and investments (Note 3)	\$ 2,242,195	\$ -	\$ 2,242,195
Restricted cash - debt service (Note 3)	276,335	-	276,335
Due from other government units	2,374,222	-	2,374,222
Special assessment receivable	644,065	-	644,065
Inventory	780,301	-	780,301
Prepaid expenses	264,702	-	264,702
Deferred expense	123,758	-	123,758
Surplus properties	18,066	-	18,066
Capital assets - Net (Note 4)	-	-	-
Assets being depreciated	-	9,686,610	9,686,610
Assets not being depreciated	-	2,811,235	2,811,235
	<u>\$ 6,723,644</u>	<u>\$ 12,497,845</u>	<u>\$ 19,221,489</u>
Total assets			
<b>Liabilities And Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 547,632	\$ -	\$ 547,632
Advances	377,722	-	377,722
Deferred revenue (Note 5)	2,217,332	(2,217,332)	-
Escrow	2,000	-	2,000
Long-term debt, due within one year (Note 7)	-	562,540	562,540
Long-term debt, due in more than one year (Note 7)	-	3,589,933	3,589,933
Other long-term liabilities (Note 6)	-	88,140	88,140
	<u>3,144,686</u>	<u>2,023,281</u>	<u>5,167,967</u>
Total liabilities			
<b>Fund Balances</b>			
Reserved for debt service	276,335	(276,335)	-
Reserved for prepaid expenses	264,702	(264,702)	-
Unreserved	3,037,921	(3,037,921)	-
	<u>3,578,958</u>	<u>(3,578,958)</u>	<u>-</u>
Total fund balances			
Total liabilities and fund balances	<u>\$ 6,723,644</u>		
<b>Net Assets</b>			
Investments in capital assets - Net of related debt		8,621,707	8,621,707
Unrestricted		5,431,815	5,431,815
		<u>\$ 14,053,522</u>	<u>\$ 14,053,522</u>
Total net assets			

# Berrien County Road Commission

## Statement of Governmental Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended September 30, 2003

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
<b>Revenue</b>			
State aid - Act 51	\$ 10,388,379	\$ -	\$ 10,388,379
Federal/state sources	4,013,660	-	4,013,660
Revenue from local governments	1,016,494	-	1,016,494
Special assessments	128,813	(128,813)	-
Contribution in-kind	48,904	-	48,904
Contribution of Infrastructure	-	1,549,175	1,549,175
Gain on sale of assets	-	130,527	130,527
Interest, fees and other revenue	97,356	-	97,356
<b>Total revenue</b>	<b>15,693,606</b>	<b>1,550,889</b>	<b>17,244,495</b>
<b>Expenditures</b>			
Current:			
Primary construction	3,929	(3,929)	-
Primary heavy maintenance	4,261,787	(4,261,787)	-
Primary heavy maintenance - safety	7,239	(7,239)	-
Primary heavy maintenance - bridges	1,833,347	(1,833,347)	-
Local heavy maintenance	890,762	(890,762)	-
Local heavy maintenance - safety	-	-	-
Local heavy maintenance - bridges	577,638	(577,638)	-
Primary maintenance	3,845,359	(20,992)	3,824,367
Local maintenance	3,751,121	(305,483)	3,445,638
Charges for services	150,015	-	150,015
Administrative	974,882	(61,910)	912,972
Net capital outlay	(217,508)	217,508	-
Less equipment rental charged to other expenditures	477,824	(1,017,874)	(540,050)
Depreciation expense	-	1,250,425	1,250,425
Debt service:			
Principal retirement	509,094	(509,094)	-
Interest/fees	175,568	-	175,568
<b>Total expenditures</b>	<b>17,241,057</b>	<b>(8,022,122)</b>	<b>9,218,935</b>
<b>Revenue over (under) Expenditures/Expense</b>	<b>(1,547,451)</b>	<b>9,573,011</b>	<b>8,025,560</b>
<b>Other Financing Sources</b>			
Proceeds from sale of assets	131,167	(131,167)	-
Long-term debt proceeds	85,483	(85,483)	-
<b>Total other financing sources</b>	<b>216,650</b>	<b>(216,650)</b>	<b>-</b>
<b>Change in Fund Balance/Net Assets</b>	<b>(1,330,801)</b>	<b>9,356,361</b>	<b>8,025,560</b>
<b>Fund Balance/Net Assets - Beginning of year, as restated (Note 1)</b>	<b>4,909,759</b>	<b>1,118,203</b>	<b>6,027,962</b>
<b>Fund Balance/Net Assets - End of year</b>	<b>\$ 3,578,958</b>	<b>\$ 10,474,564</b>	<b>\$ 14,053,522</b>

# Berrien County Road Commission

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## Notes to Financial Statements September 30, 2003

### Note 1 – Significant Accounting Policies

The Road Commission (a component unit of Berrien County, Michigan) is a governmental agency responsible for the maintenance and construction of the County road system in Berrien County. The Road Commission's financial statements will be included in the general purpose financial statements of the County of Berrien, Michigan.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective October 1, 2002, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. Significant changes, as prescribed by the Statement, include the following:

- A Management Discussion and Analysis section, which provides an analysis of the Road Commission's overall financial position and results of operations, has been included in the financial statements.
- The financial statements have been prepared using full-accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

These and other changes are reflected in the accompanying financial statements (including notes). The Road Commission has elected to implement the general provisions of the statement with the exception of the retroactive reporting of infrastructure (see Note 4).

#### **Basic Financial Statements – Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 1 – Significant Accounting Policies (Continued)

Major individual governmental funds are reported as separate columns in the fund financial statement.

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year-end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 1 – Significant Accounting Policies (Continued)

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

**Inventory and Prepaid Items** – Inventory, principally consisting of road material, salt, signs and equipment maintenance materials, is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, culverts, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line or units of production methods over the following useful lives:

	Methods	Useful Lives- Years
Buildings	Straight-line	40
Salt storage bins	Units of production	Various
Road equipment	Sum of years-digits	5-8
Other equipment	Straight-line	10-20
Roads	Straight-line	5-30
Other infrastructure	Straight-line	12-50

**Compensated Absences (Vacation and Sick Leave)** – It is the Road Commission’s policy to allow employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end. The Road Commission does not accrue for unused sick pay benefits.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 1 – Significant Accounting Policies (Continued)

**Long-term Obligations** – Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statement columns. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Other accounting policies are disclosed in the following notes to financial statements.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 2 – Reconciliation of Government-Wide and Fund Financial Statements

Amounts reported in the government-wide financial statement column are different from amounts reported in the governmental fund column because of the following:

Governmental funds - fund balance	\$ 3,578,958
Capital assets used in governmental activities are not financial resources, and are not reported in the funds	12,497,845
Special assessment receivables and due from Federal government not collected are not available to pay for current year expenditures within 60 days of year-end	2,217,332
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,152,473)
Compensated absences and provision for workers' compensation and health uninsured losses are not reported in the funds	<u>(88,140)</u>
Government-wide net assets	<u>\$ 14,053,522</u>

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 2 – Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Net change in fund balances - Total Governmental Funds	\$(1,330,801)
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	7,513,028
Contributions of infrastructure are recorded in the statement of activities, but are not recorded in the governmental fund	1,549,175
In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold	(640)
Repayment of bond principal, net of bond proceeds, is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	423,611
In the governmental funds, special assessment receipts not collected within 60 days of year-end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>(128,813)</u>
Change in net assets of governmental activities	<u>\$ 8,025,560</u>

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 3 – Cash and Investments

The Road Commission’s deposits and investments are included on the balance sheet under the following classifications:

Cash and investments	\$ 2,242,195
Restricted Cash	<u>276,335</u>
Total	<u>\$ 2,518,530</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Deposits	\$ 389,210
Investments	<u>2,129,320</u>
Total	<u>\$ 2,518,530</u>

### Deposits

All banking transactions are handled by the Berrien County Treasurer. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$556,805. Of that amount, \$132,836 was covered by federal depository insurance and \$423,969 was uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, each financial institution is evaluated and the level of risk of each institution is assessed; only those institutions with an acceptable estimated risk level are used as depositories.

# Berrien County Road Commission

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Notes to Financial Statements  
September 30, 2003

## Note 3 – Deposits and Investments (Continued)

### Investments

The Road Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Road Commission's investments during the year consisted of federal securities held in County pooled investments.

Investments are normally categorized to give an indication of the level of risk assumed by the Road Commission; however, County pooled investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Road Commission believes that the investments in these funds comply with the investment authority noted above.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 4 – Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated -				
Land and land improvements	\$ 238,746	\$ 2,572,489	\$ -	\$ 2,811,235
Capital assets being depreciated -				
Buildings and storage bins	1,965,589	34,091	-	1,999,680
Road equipment	8,835,164	767,992	228,775	9,374,381
Other equipment	1,045,267	60,194	129,769	975,692
Infrastructure	-	6,877,864	-	6,877,864
Subtotal	11,846,020	7,740,141	358,544	19,227,617
Less accumulated depreciation for:				
Buildings and storage bins	1,276,584	61,909	-	1,338,493
Road equipment	6,723,093	959,589	228,135	7,454,547
Other equipment	648,807	58,287	129,769	577,325
Infrastructure	-	170,642	-	170,642
Subtotal	8,648,484	1,250,427	357,904	9,541,007
Net capital assets being depreciated	<u>3,197,536</u>	<u>6,489,714</u>	<u>640</u>	<u>9,686,610</u>
Net capital assets	<u>\$ 3,436,282</u>	<u>\$ 9,062,203</u>	<u>\$ 640</u>	<u>\$ 12,497,845</u>

GASB Statement No. 34 requires the Road Commission to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Road Commission. Neither their historical cost nor their related depreciation has been historically reported in the financial statements.

The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the Road Commission's 2007 fiscal year. The Road Commission has elected to implement the general provisions of GASB Statement No. 34 in the current year and plan to implement the retroactive provisions for infrastructure assets in a fiscal year ending no later than September 30, 2007.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 5 – Deferred Revenues

Deferred revenues for the year ended September 30, 2003 were as follows:

	<u>Unavailable</u>
Special assessment receivable	\$ 644,065
Due from Federal government	<u>1,573,267</u>
Total	<u>\$ 2,217,332</u>

Deferred revenue was reclassified to net assets on the government wide financial statements since these amounts represent revenue earned in prior years.

### Note 6 – Other Long-Term Liabilities

#### Insurance Programs

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for torts, errors and omissions and for medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for tort, errors and omissions and property liability. The Road Commission participates in the County Road Association Self-Insurance Fund for worker's compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-Insurance Pool and County Road Association Self-Insurance Fund programs operate as a common risk-sharing management program for road commission units in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, employees earn vacation time based on time of service with the Road Commission.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 7 – Long-Term Debt

#### Outstanding Debt

The following is a summary of the debt outstanding of the Road Commission as of September 30, 2003:

	Interest Rate	Maturing Through	Principal Outstanding	Amount Due Within One Year
1998 Michigan Department of Transportation Bond	4.00%	2008	\$ 625,000	\$ 125,000
2000 Michigan Department of Transportation Bond	4.5% to 4.75%	2010	2,790,000	250,000
Berrien Township - Note Payable	-	2014	519,800	50,000
Watervliet Township - Note Payable	-	2005	69,650	25,000
Bainbridge Township - Note Payable	-	2005	60,483	25,000
AIS Construction - Machinery and Equipment Capital lease	4.19%	2004	60,116	60,116
Case Credit - Machinery and Equipment Capital lease	4.47%	2004	<u>27,424</u>	<u>27,424</u>
Total			<u>\$ 4,152,473</u>	<u>\$ 562,540</u>

#### Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2003:

<b>Balance</b> - Beginning of year	\$ 4,576,084
Additional borrowings	85,483
Debt retired	<u>(509,094)</u>
<b>Balance</b> - End of year	<u>\$ 4,152,473</u>

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 7 – Long-Term Debt (Continued)

#### Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2003, (excluding liabilities for compensated absences) are as follows:

Fiscal Years Ending September 30	Principal	Interest	Total
2004	\$ 562,540	\$ 151,464	\$ 714,004
2005	525,000	130,500	655,500
2006	555,133	110,875	666,008
2007	525,000	90,038	615,038
2008	525,000	69,025	594,025
2009 and thereafter	<u>1,459,800</u>	<u>88,588</u>	<u>1,548,388</u>
Total	<u>\$ 4,152,473</u>	<u>\$ 640,490</u>	<u>\$ 4,792,963</u>

#### Interest

Interest expense of the Road Commission for the year ended September 30, 2003 was \$170,126.

### Note 8 – Budget Information

The annual budget is prepared by the Road Commission management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the body of the required supplementary information.

# Berrien County Road Commission

## Notes to Financial Statements September 30, 2003

### Note 9 – Postemployment Benefits

The Road Commission offers health care benefits and a death benefit to all full-time employees upon retirement. Benefits are offered to pre-Medicare retirees and their dependents in its insured health care plan, with contributions required by the participant. As of September 30, 2003, there were 22 retirees participating in the plan and premiums paid by the Road Commission totaled approximately \$18,000.

### Note 10 – Defined Benefit Pension Plan

#### Plan Description

The Road Commission participates in the Berrien County Employees Amended Retirement Plan, a County Public Employee Retirement System, which is a cost-sharing multiple-employer PERS that covers all full-time employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Berrien County Employees Amended Retirement Plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the system at the Berrien County Courthouse, 811 Port Street, St. Joseph, Michigan 49085.

#### Funding Policy

The obligation to contribute to and maintain the plan for these employees was established by Board resolution and requires a contribution from the employees of 5 percent of compensation. The Road Commission is required to contribute at an actuarially determined rate, currently 3.31 percent of payroll. The Road Commission's contributions to the plan for the years ended September 30, 2003, 2002 and 2001 were \$111,275, \$177,513 and \$93,525, respectively. The contributions are equal to the required contributions for each year.

# Supplementary Information

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# Berrien County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule – Road Fund Year Ended September 30, 2003

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
State aid - Act 51	\$ 10,229,000	\$ 10,337,000	\$ 10,388,379	\$ 51,379
Federal/state sources	7,407,000	5,159,000	4,013,660	(1,145,340)
Revenue from local governments	1,065,000	335,000	1,016,494	681,494
Special assessments	155,000	155,000	128,813	(26,187)
Contribution in-kind	-	-	48,904	48,904
Interest, fees and other revenue	<u>132,000</u>	<u>56,000</u>	<u>97,356</u>	<u>41,356</u>
Total revenue	18,988,000	16,042,000	15,693,606	(348,394)
<b>Expenditures</b>				
Current:				
Primary construction	62,000	101,000	3,929	97,071
Primary heavy maintenance	6,710,000	4,335,000	4,261,787	73,213
Primary heavy maintenance - safety	566,000	50,000	7,239	42,761
Primary heavy maintenance - bridges	2,578,000	2,255,000	1,833,347	421,653
Local heavy maintenance	566,000	1,000,000	890,762	109,238
Local heavy maintenance - safety	296,000	360,000	-	360,000
Local heavy maintenance - bridges	2,165,000	833,000	577,638	255,362
Primary maintenance	3,590,000	3,800,000	3,845,359	(45,359)
Local maintenance	3,311,000	3,500,000	3,751,121	(251,121)
Charges for services	-	150,000	150,015	(15)
Administrative	820,000	960,000	974,882	(14,882)
Equipment and capital outlay - Net of depreciation credits	340,000	540,000	260,316	279,684
Debt service:				
Principal retirement	505,000	505,000	509,094	(4,094)
Interest/fees	<u>175,000</u>	<u>175,000</u>	<u>175,568</u>	<u>(568)</u>
Total expenditures	<u>21,684,000</u>	<u>18,564,000</u>	<u>17,241,057</u>	<u>1,322,943</u>
<b>Deficiency of Revenue Over Expenditures</b>	(2,696,000)	(2,522,000)	(1,547,451)	974,549
<b>Other Financing Sources</b>				
Proceeds from sale of assets	135,000	107,000	131,167	24,167
Long-term debt proceeds	-	-	85,483	85,483
Total other financing sources	135,000	107,000	216,650	109,650
<b>Deficiency of Revenue and Other Financing Sources over Expenditures</b>	(2,561,000)	(2,415,000)	(1,330,801)	1,084,199
<b>Fund Balance - Beginning of year</b>	<u>3,018,296</u>	<u>4,909,759</u>	<u>4,909,759</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 457,296</u>	<u>\$ 2,494,759</u>	<u>\$ 3,578,958</u>	<u>\$ 1,084,199</u>

# Berrien County Road Commission

## Other Supplementary Information Analysis of Changes in Road Fund Balances Year Ended September 30, 2003

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Total Revenue</b>	\$ 10,564,889	\$ 5,085,201	\$ 43,516	\$ 15,693,606
<b>Total Expenditures</b>	<u>11,414,653</u>	<u>5,774,099</u>	<u>52,305</u>	<u>17,241,057</u>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	(849,764)	(688,898)	(8,789)	(1,547,451)
<b>Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>216,650</u>	<u>216,650</u>
<b>Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures</b>	(849,764)	(688,898)	207,861	(1,330,801)
<b>Interfund Transfer</b>	(688,898)	688,898	-	-
<b>Fund Balance - Beginning of year</b>	<u>3,677,713</u>	<u>-</u>	<u>1,232,046</u>	<u>4,909,759</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 2,139,051</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 1,439,907</b></u>	<u><b>\$ 3,578,958</b></u>

# Berrien County Road Commission

## Other Supplementary Information Analysis of Road Fund Revenue Year Ended September 30, 2003

	Primary Road	Local Road	County Road	Total
State Aid				
Michigan Transportation Fund				
Engineering	\$ 6,667	\$ 3,333	\$ -	\$ 10,000
Allocation	5,861,228	2,972,932	-	8,834,160
Urban roads	977,011	531,153	-	1,508,164
Critical bridge	567,627	87,113	-	654,740
Snow removal	24,037	12,018	-	36,055
Economic Development Fund				
Target industries (A)	107	-	-	107
(F) Funds	355,633	-	-	355,633
Federal Aid				
Surface Transportation				
Program	1,377,126	(1,560)	-	1,375,566
Bridge	945,768	418,412	-	1,364,180
Railroad Safety	144,998	-	-	144,998
Federal D Fund	118,436	-	-	118,436
Charges for Service				
Indrive culvert	10,635	10,634	-	21,269
Salvage sales	-	-	2,207	2,207
City & Village	-	-	14,232	14,232
Contributions				
Township	-	1,002,262	-	1,002,262
Other	-	48,904	-	48,904
Other Revenue				
Interest earned	46,803	-	15,601	62,404
Sundry refunds	-	-	2,434	2,434
Special assessment - principal & interest	128,813	-	-	128,813
Other	-	-	9,042	9,042
Total revenue	<b><u>\$ 10,564,889</u></b>	<b><u>\$ 5,085,201</u></b>	<b><u>\$ 43,516</u></b>	<b><u>\$ 15,693,606</u></b>

# Berrien County Road Commission

## Other Supplementary Information Analysis of Road Fund Expenditures Year Ended September 30, 2003

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Primary Road				
Construction	\$ 3,929	\$ -	\$ -	\$ 3,929
Heavy maintenance	4,261,787	-	-	4,261,787
Maintenance	3,845,359	-	-	3,845,359
Safety	7,239	-	-	7,239
Local Road				
Heavy maintenance	-	890,762	-	890,762
Maintenance	-	3,751,121	-	3,751,121
Primary Road Structures				
Heavy maintenance	1,833,347	-	-	1,833,347
Local Road Structures				
Heavy maintenance	-	577,638	-	577,638
Charges for services	-	-	150,015	150,015
Administrative Expense - Net	639,482	335,400	-	974,882
Net equipment expense	229,977	219,178	28,669	477,824
Net capital outlay	-	-	(217,508)	(217,508)
Debt Service				
Debt principal payments	425,000	-	84,094	509,094
Interest expense	168,533	-	7,035	175,568
Total expenditures	<u>\$ 11,414,653</u>	<u>\$ 5,774,099</u>	<u>\$ 52,305</u>	<u>\$ 17,241,057</u>

# Berrien County Road Commission

## Other Supplementary Information Statement of Road Fund Administrative Expenditures Year Ended September 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Office salaries and wages	\$	\$ 564,639	\$
Administrative		10,820	
Fringe benefits		1,653	
Building maintenance		47,883	
Commissioner's compensation		16,525	
Professional services		43,392	
Conference and travel		31,469	
Traffic and highway surveys		42	
Office supplies		40,973	
Advertising		11,342	
Annual dues, subscriptions and certificates		12,521	
Telephone		20,946	
Postage		3,869	
Insurance		56,532	
Depreciation		61,910	
Equipment rental		19,290	
Utilities		8,550	
Safety		1,621	
Miscellaneous		21,652	
Total administrative expenditures	960,000	975,629	(15,629)
Less purchase discounts	-	(747)	747
Net administrative expenditures	<b><u>\$ 960,000</u></b>	<b><u>\$ 974,882</u></b>	<b><u>\$ (14,882)</u></b>