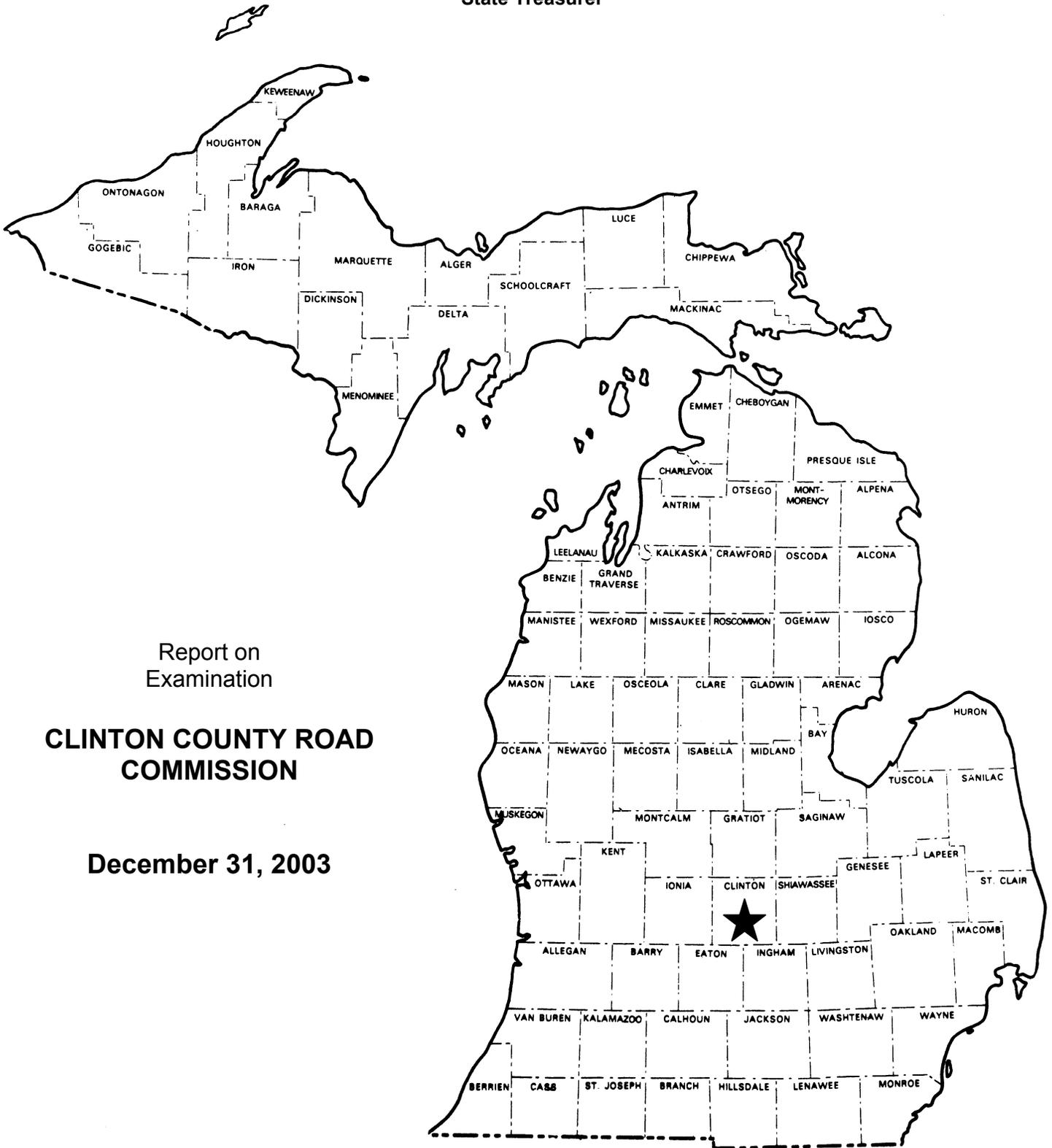


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**CLINTON COUNTY ROAD  
COMMISSION**

**December 31, 2003**

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CLINTON COUNTY  
BOARD OF COUNTY ROAD COMMISSIONERS

Francis Trierweiler  
Chairman

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Russel Bauerle  
Member

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Managing Director

Daniel J. Vriebel  
County Highway Engineer

Patricia E. Wysong  
Director of Finance/Clerk

COUNTY POPULATION--2000  
64,753

STATE EQUALIZED VALUATION--2003  
\$2,185,464,849



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JAY B. RISING  
STATE TREASURER

March 5, 2004

Board of County Road Commissioners  
Clinton County  
3535 South US 27  
St. Johns, Michigan 48879

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities of the Clinton County Road Commission, a component unit of Clinton County, Michigan, as of and for the year ended December 31, 2003, which comprises the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clinton County Road Commission as of December 31, 2003 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 9 and budget comparison information on pages 28 through 29 are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2004 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

As discussed in Note M of the basic financial statements, the Clinton County Road Commission has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*; Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Clinton County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits G through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

CLINTON COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS .....</b>	<b>1</b>
<b>BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS:</b>	
EXHIBIT A--Statement of Net Assets.....	10
EXHIBIT B--Statement of Activities .....	11
EXHIBIT C--Balance Sheet .....	12
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balances to the Statement of Net Assets .....	13
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance.....	14
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statements of Activities .....	15
NOTES TO FINANCIAL STATEMENTS .....	16
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
EXHIBIT G--Required Supplementary Information--Statement of Revenues and Other Financing Sources--Budgetary Comparison Schedule .....	30
EXHIBIT H--Required Supplementary Information--Statement of Expenditures Budget and Actual--Budgetary Comparison Schedule .....	31
<b><u>SUPPLEMENTAL SCHEDULES</u></b>	
EXHIBIT I--Analysis of Changes in Fund Balances.....	32
EXHIBIT J--Analysis of Revenues and Other Financing Sources .....	33
EXHIBIT K--Analysis of Expenditures .....	34
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u> .....	35
Comment and Recommendation.....	37

# CLINTON COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clinton County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2003. 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 longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

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

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.

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

**Reporting the 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, you need to consider additional non-financial factors such as changes in the county's property tax base, the condition of the Road Commission's roads and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 3. The fund financial statements begin on page 4 and provides detailed information about the major fund.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

**CLINTON COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The Road Commission's net assets increased from \$45,062,939 to \$46,875,163 for the year ended December 31, 2003. 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.

Comparisons to prior year data will be completed in following years of GASB compliance.

Net assets as of year ended December 31, 2003 follows:

Current and Other Assets	\$ 3,361,585	
Net Capital Assets	<u>44,893,427</u>	
Total Assets		<u>\$ 48,255,012</u>
Long-Term Debt Outstanding	913,655	
Other Liabilities	<u>466,194</u>	
Total Liabilities		<u>1,379,849</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	44,863,427	
Restricted	<u>2,011,736</u>	
Total Net Assets		<u>\$ 46,875,163</u>

During 2003, there was an increase of \$1,812,224 in net assets. The investment in capital assets, net of related debt, increased by \$1,222,657 primarily due to the increase in the capital assets exceeding the depreciation expense for the current year. The restricted net assets increased by \$589,567 due to the operating revenues exceeding the operating expenses.

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

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2003 follows:

Program Revenue	
License and Permits	\$ 102,925
Federal Grants	441,950
State Grants	5,968,086
Contributions From Local Units	1,548,748
Charges for Services	1,283,935
Investment Earnings	17,711
Private Contributions	2,053,854
Refunds and Reimbursements	12,845
General Revenue	
Gain on Equipment Disposal	<u>37,943</u>
 Total Revenue	 <u>11,467,997</u>
 Expenses	
Primary Road Maintenance	1,700,963
Local Road Maintenance	3,249,089
State Trunkline Maintenance	1,156,288
Net Equipment Expense	(366,645)
Net Administrative Expense	452,142
Non-Road Project	48,860
Infrastructure Depreciation	3,298,675
Drainage District	53,477
Compensated Absences	59,924
Interest Expense	3,000
 Total Expenses	 <u>9,655,773</u>
 Increase in Net Assets	 <u>\$ 1,812,224</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county that are earmarked by law for road and highway purposes.

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.

**CLINTON COUNTY ROAD COMMISSION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

For the year ended December 31, 2003, the fund balance of the general operations fund increased \$286,351 as compared to a decrease of \$437,756 in the fund balance for the year ended December 31, 2002. Total operating revenues were \$11,467,996, a decrease of \$2,606,667 as compared to last year. This change in revenues resulted primarily from a decrease in Federal grants and private contributions of \$2,047,474 and \$363,139, respectively. Total expenditures were \$11,181,645, a decrease of \$3,340,774 as compared to last year. This change in expenditures is due primarily to a decrease in primary construction and heavy maintenance projects of \$3,037,267.

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

	12/31/2002 Operating Fund	12/31/2003 Operating Fund	Favorable (Unfavorable) Variance	Variance %
<b>Revenues</b>				
License and Permits	\$ 94,388	\$ 102,925	\$ 8,537	9.04%
Federal Grants	2,489,424	441,950	(2,047,474)	-82.25%
State Grants	6,086,081	5,968,086	(117,995)	-1.94%
Contributions From Local Units	1,396,892	1,548,748	151,856	10.87%
Charges for Services	1,463,620	1,283,935	(179,685)	-12.28%
Interest and Rents	28,876	17,710	(11,166)	-38.67%
Other Revenue	<u>2,515,382</u>	<u>2,104,642</u>	<u>(410,740)</u>	<u>-16.33%</u>
<b>Total Revenues</b>	<u>14,074,663</u>	<u>11,467,996</u>	<u>(2,606,667)</u>	<u>-18.52%</u>
<b>Expenditures</b>				
Public Works	14,550,708	11,213,867	3,336,841	22.93%
Net Capital Outlay	(39,389)	(42,722)	3,333	-8.46%
Debt Service	<u>11,100</u>	<u>10,500</u>	<u>600</u>	<u>5.41%</u>
<b>Total Expenditures</b>	<u>14,522,419</u>	<u>11,181,645</u>	<u>3,340,774</u>	<u>23.00%</u>
<b>Excess of Expenditures (Over) Under Revenues</b>	<u>(447,756)</u>	<u>286,351</u>	<u>734,107</u>	<u>163.95%</u>
<b>Other Financing Sources</b>				
Transfers In--Primary Government	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>	<u>-100.00%</u>
<b>Total Other Financing Sources</b>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>	<u>-100.00%</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures</b>	<u>(437,756)</u>	<u>286,351</u>	<u>724,107</u>	<u>165.41%</u>
<b>Fund Balance--Beginning</b>	<u>2,743,751</u>	<u>2,305,995</u>	<u>(437,756)</u>	<u>-15.95%</u>
<b>Fund Balance--Ending</b>	<u>\$ 2,305,995</u>	<u>\$ 2,592,346</u>	<u>\$ 286,351</u>	<u>12.42%</u>

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

**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 2003 was \$993,281 higher than the original budget, due to new subdivision roads accepted into the county road system. The actual revenue recognized during 2003 was greater than the final amended budget by \$423,780 with \$369,610.10 as a result of increased MTF revenue received related to changing the trailer license fee collection to a one-time fee. This additional revenue is anticipated to end in October 2004, reflecting a decrease in MTF revenues.

The final amended expenditure budget for 2003 was \$1,145,266 lower than the original budget, primarily due to a decrease in township participation of \$95,444.09, and Federal aid/critical bridge projects not completed during 2003. The actual expenditures recognized during 2003 were more than the final amended budget by \$289,414. This excess of expenditures over budgeted projections was due primarily to acceptance of subdivision roads in the amount of \$1,953,756.

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

**Capital Asset and Debt Administration**

Capital Assets

As of December 31, 2003, the Road Commission had invested \$44,893,427 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,578,294 or 3.64% as follows:

	2002	2003	Total Percentage Change 2002-2003
Capital Assets Not being Depreciated			
Land	\$ 283,750	\$ 283,750	0%
Land/Right-of-Way	202,650	440,046	117.15%
Land Improvements	3,398,404	3,825,675	12.57%
Subtotal	<u>3,884,804</u>	<u>4,549,471</u>	<u>17.11%</u>
Capital Assets Being Depreciated			
Buildings	1,713,439	1,735,798	1.30%
Equipment	4,969,311	5,276,899	6.19%
Depletable Assets	63,115	63,115	0.00%
Infrastructure	64,165,628	65,783,024	2.52%
Subtotal	<u>70,911,493</u>	<u>72,858,836</u>	<u>2.75%</u>
Total Capital Assets	<u>74,796,297</u>	<u>77,408,307</u>	<u>3.49%</u>
Total Accumulated Depreciation	<u>(31,481,164)</u>	<u>(32,514,880)</u>	<u>3.28%</u>
Total Net Capital Assets	<u>\$43,315,133</u>	<u>\$44,893,427</u>	<u>3.64%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$5,200,563. The total depreciation expense recorded during 2003 was \$3,572,714. The infrastructure is financed through federal, state, local and private contributions. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) during 2002 as required by GASB 34.

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

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

Various Resurfacing Projects and Related ROW	\$ 4,621,794
Trucks/Equipment	541,335
Storage Building Addition	22,359
Office and Engineering Equipment	<u>15,075</u>
 Total Additions	 <u><u>\$ 5,200,563</u></u>

There were no installment purchase agreements entered into during 2003, all the equipment was acquired with Road Commission funds.

During 2003, the Road Commission traded in and/or disposed of equipment with a purchase amount of \$409,682 and related depreciation of \$360,127, with a net book value of \$49,555. A total of \$2,178,871 of fully depreciated infrastructure assets were removed from the capital asset account.

In 2004, we are projecting the purchase of 1 suburban, 2 tandem trucks with plows, 1 grader, 3 pickups, 1 trailer, 1 mower, 1 arm mower, and 1 arrow board for a total of \$609,700 with these purchased to be financed using Michigan Transportation Fund revenues.

Debt

At the end of the year, the Road Commission had \$0 in bonds and installment purchase agreements payable with a balance of \$30,000.

Other obligations include accrued vacation pay, sick leave, and longevity in the amount of \$580,610 at the end of 2003.

**Economic Factors and Next Year's Budget**

The board of county road commissioners considered many factors when setting the fiscal year 2004 budget. One of the factors is the economy. The Road Commission derives approximately 40% of its revenues from the fuel tax collected. It is estimated that the Road Commission will receive \$0 (0.00%) more Michigan Transportation Fund revenue in 2004. The Road Commission is anticipating receipt of additional MTF as it relates to trailer license plate fees; however, this money is being placed in a separate fund in anticipation of reduced MTF in 2005. The Road Commission received approximately 13.4% of its revenues from township contributions during 2003, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate in. During 2004, we expect to receive at least \$3,519,920 in Federal and State aid for road projects.

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

The above items were considered when adopting the budget for 2004. Amounts available for appropriation in the budget are \$13,014,132 an increase of 17.8% over the 2003 budget of \$11,044,215.

**Contacting the Road Commission's Financial Management**

The 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 Clinton County Road Commission, Director of Finance at: 3536 South BR127, Street Johns, Michigan 48879.

**CLINTON COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
December 31, 2003**

**EXHIBIT A**

**ASSETS**

Cash	\$ 1,047,985
Investments	465,684
Accounts Receivable	
Sundry Accounts	24,549
State--Trunkline Maintenance	197,249
Michigan Transportation Fund	973,089
Due on County Road Agreements	169,267
Inventories	
Road Materials	255,430
Equipment Parts and Materials	101,170
Deferred Expenses	127,162
Capital Assets (Net of Accumulated Depreciation)	<u>44,893,427</u>
 Total Assets	 <u>48,255,012</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	141,099
Due to State of Michigan	159,913
Accrued Liabilities	27,245
Performance Bonds Payable	130,437
Installment Purchase Agreements Payable	7,500
Non-Current Liabilities	
State Trunkline Advances	310,545
Installment Purchase Agreements Payable	22,500
Vested Employee Benefits Payable	<u>580,610</u>
 Total Liabilities	 <u>1,379,849</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	44,863,427
Restricted for County Roads	<u>2,011,736</u>
 Total Net Assets	 <u><u>\$46,875,163</u></u>

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

**CLINTON COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2003**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 1,700,963
Local Road Maintenance	3,249,089
State Trunkline Maintenance	1,156,288
Net Equipment Expense	(366,645)
Net Administrative Expense	452,142
Non-Road Project	48,860
Infrastructure Depreciation	3,298,675
Drainage District	53,477
Compensated Absences	59,924
Interest Expense	3,000
	<hr/>
Total Program Expenses	<u>9,655,773</u>
Program Revenue	
License and Permits	102,925
Federal Grants	441,950
State Grants	5,968,086
Contributions From Local Units	1,548,748
Charges for Services	1,283,935
Investment Earnings	17,711
Refunds and Reimbursements	12,845
Private Contributions	2,053,854
	<hr/>
Total Program Revenue	<u>11,430,053</u>
Net Program Revenue	<u>1,774,281</u>
General Revenue	
Gain on Equipment Disposal	37,943
	<hr/>
Total General Revenues and Transfers In	<u>37,943</u>
Change in Net Assets	<u>1,812,224</u>
Net Assets	
Beginning of Year	<u>45,062,939</u>
End of Year	<u><u>\$46,875,163</u></u>

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

**CLINTON COUNTY ROAD COMMISSION  
BALANCE SHEET  
DECEMBER 31, 2003**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$ 1,047,985
Investments	465,684
Accounts Receivable	
State Trunkline	197,249
Michigan Transportation Fund	973,089
Due on County Road Agreements	169,267
Sundry Accounts	24,549
Inventories	
Road Materials	255,430
Equipment Parts and Materials	101,170
Deferred Expense	<u>127,162</u>
Total Assets	<u><u>\$ 3,361,585</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 141,099
Accrued Liabilities	27,245
Due to State of Michigan	159,913
Performance Bonds Payable	130,437
Advance From State	<u>310,545</u>
Total Liabilities	<u>769,239</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	356,600
Unreserved and Undesignated	<u>2,235,746</u>
Total Fund Equities	<u>2,592,346</u>
Total Liabilities and Fund Equities	<u><u>\$ 3,361,585</u></u>

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

**CLINTON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND  
BALANCES TO THE STATEMENT OF NET ASSETS  
For the Year Ended December 31, 2003**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 2,592,346
Amounts reported for governmental activities in the Statement of Net Assets are are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	44,893,427
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(610,610)</u>
Net Assets of Governmental Activities	<u>\$46,875,163</u>

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

**CLINTON COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
For the Year Ended December 31, 2003**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
License and Permits	\$ 102,925
Federal Aid	441,950
State Aid	5,968,086
Contributions From Local Units	1,548,748
Charges for Services	1,283,935
Interest and Rents	17,710
Other Revenue	<u>2,104,642</u>
Total Revenues	<u>11,467,996</u>
Expenditures	
Public Works	10,592,375
Capital Outlay	578,770
Debt Service	<u>10,500</u>
Total Expenditures	<u>11,181,645</u>
Excess of Revenues Over (Under) Expenditures	<u>286,351</u>
Fund Balance--January 1, 2003	<u>2,305,995</u>
Fund Balance--December 31, 2003	<u><u>\$ 2,592,346</u></u>

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

**CLINTON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2003**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 286,351

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

Governmental funds report capital outlays as expenditures.  
However, in the Statement of Activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. This is the amount  
by which capital outlays exceeded depreciation in the current period. 1,578,297  
Equipment retirement is recorded as an expenditure credit in governmental  
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,  
but entering into lease agreements increases long-term liabilities in the 7,500  
Statement of Net Assets. Repayment of notes/leases payable is an  
expenditure in governmental funds, but reduces the long-term liabilities in the  
Statement of Net Assets

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and therefore are not reported as expenditures  
in governmental funds. (Increase in compensated absences and decrease in  
interest expense) (59,924)

Change in Net Assets of Governmental Activities \$ 1,812,224

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

## CLINTON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Clinton County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Clinton County Road Commission.

#### NOTE A--REPORTING ENTITY

The Clinton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Clinton County Road Commission, a discretely presented component unit of Clinton County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Clinton County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# CLINTON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

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

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Cash, Cash Equivalents 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 recorded at cost.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Inventories

Inventories are priced at cost as determined by the average unit cost method. An adjustment to inventory charged was made during 2003 due to the computer charging on a "first-in-first-out" basis, since it is the Road Commission's practice to charge by the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Clinton County Road Commission as assets with an initial individual cost of more \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2003, the Clinton County Road Commission has capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

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

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Long-Term Obligations

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

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. The Road Commission's chief administrative officer (managing director) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and, subsequently, adopts an operating budget. Amendments to the budget are made only with board approval. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. During 2003, the actual expenditures exceeded the final amended budget by \$289,414. The following expenditure activities exceeded the final amended budget:

	Final Amended Budget	Actual	Variance
Non Road Project	\$ 27,604	\$ 48,860	\$ (21,256)
Capital Outlay--Net	(42,722)	255,176	(297,898)
Total Expenditures	10,892,231	11,181,645	(289,414)

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in various banks in the name of the Clinton County Treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The Road Commission has adopted an investment policy in accordance with the requirements of Public Act 196 of 1997.

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Deposits and Imprest Cash		
Insured (FDIC)	\$ 115,000	\$ 200,000
Uninsured	932,885	942,549
Imprest Cash	<u>100</u>	
Total Deposits and Imprest Cash	<u>\$1,047,985</u>	<u>\$1,142,549</u>

The GASB Statement No. 3 risk disclosures for the Road Commission's investments are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Nonrisk-Categorized		
Government Operating Money Market	<u>\$465,684</u>	<u>\$465,568</u>
Total Operating Fund	<u>\$465,684</u>	<u>\$465,568</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

The Road Commission has investments purchased through a pooled investment account at a financial institution. The nature of the pooled investments does not allow for risk-categorization in accordance with GASB Statement No. 3.

NOTE E--GENERAL LONG-TERM DEBT

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

	<u>Balance 01/01/03</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/03</u>
Installment Purchase Contract			
\$75,500 Dated December 15, 1998	\$ 37,500	\$ (7,500)	\$ 30,000
Vested Employee Benefits			
Vacation, Sick Leave and Longevity	<u>520,686</u>	<u>59,924</u>	<u>580,610</u>
Totals	<u>\$558,186</u>	<u>\$52,424</u>	<u>\$610,610</u>

Installment Purchase Contract

The installment purchase contract was entered into for aggregate sand and gravel. The agreement bears interest at 8% per annum and is payable as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 7,500	\$2,400	\$ 9,900
2005	7,500	1,800	9,300
2006	7,500	1,200	8,700
2007	<u>7,500</u>	<u>600</u>	<u>8,100</u>
Total	<u>\$30,000</u>	<u>\$6,000</u>	<u>\$36,000</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--GENERAL LONG-TERM DEBT (Continued)

Vested Employee Benefits Payable

	<u>Balances</u> <u>01/01/2003</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>12/31/2003</u>
Vested Employee Benefits			
Vacation Benefits	\$133,811	\$ 13,106	\$ 146,917
Sick Leave Benefits	309,413	12,623	322,036
Longevity	<u>77,462</u>	<u>34,195</u>	<u>111,657</u>
Total	<u>\$520,686</u>	<u>\$ 59,924</u>	<u>\$ 580,610</u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of an employee. Benefits earned by each employee are credited annually to his or her account on the anniversary date of employment. The maximum allowable accumulation is 240 hours. For administrative employees, up to ½ of their accumulated vacation hours may be converted to cash within 6 months of their anniversary date.

Sick Leave Benefits

The Road Commission's employment policies provide that every regular employee shall earn sick leave with pay at the rate of 2 hours per week, not to exceed 104 hours per year, with a maximum accumulation of 1,360 hours. Upon retirement or death, an employee shall be paid for all unused sick leave. One-half of accumulated sick leave shall be paid upon resignation of an employee. Payments to the employee or the named beneficiary shall be made at the prevailing rate of pay at the time of employment termination. Sick leave is recorded at 100% of maximum payable leave.

Longevity Benefits

Administrative employees accumulate longevity of 24 to 48 hours per year, not to exceed 1056 hours maximum. Payment can be made at separation after 5 years of service. Longevity is recorded at 100% of maximum payable.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--GENERAL CAPITAL ASSETS

The following is a summary of the changes in the general capital assets:

	Account Balances 01/01/2003	Additions	Deductions	Account Balances 12/31/2003
Capital Assets Not Being Depreciated				
Land	\$ 283,750			\$ 283,750
Infrastructure--Land/Right-of-Way	202,650	\$ 237,396		440,046
Infrastructure--Land Improvements	3,398,404	427,271		3,825,675
Subtotal	<u>3,884,804</u>	<u>664,667</u>	<u>\$ -</u>	<u>4,549,471</u>
Capital Assets Being Depreciated				
Buildings	1,713,439	22,359		1,735,798
Road Equipment	4,725,701	541,335	196,859	5,070,177
Shop Equipment	62,991	8,267	5,282	65,976
Office Equipment	130,910	6,808	21,717	116,001
Engineer's Equipment	49,709		24,964	24,745
Depletable Assets	63,115			63,115
Infrastructure--Bridges	21,842,873	153,504	99,319	21,897,058
Infrastructure--Roads	42,311,055	3,774,538	2,240,412	43,845,181
Infrastructure--Traffic Signals	11,700	29,085		40,785
Total	<u>70,911,493</u>	<u>4,535,896</u>	<u>2,588,553</u>	<u>72,858,836</u>
Less Accumulated Depreciation				
Building	730,760	50,920		781,680
Road Equipment	3,372,686	202,332	152,683	3,422,335
Shop Equipment	40,892	5,406	5,282	41,016
Office Equipment	73,662	14,724	19,104	69,282
Engineer's Equipment	43,558	657	22,198	22,017
Reserve for Depletable Assets	40,473	-		40,473
Infrastructure--Bridges	10,139,851	370,312	99,319	10,410,844
Infrastructure--Roads	17,031,969	2,928,049	2,240,412	17,719,606
Infrastructure--Traffic Signals	7,313	314		7,627
Total	<u>31,481,164</u>	<u>3,572,714</u>	<u>2,538,998</u>	<u>32,514,880</u>
Net Capital Assets Being Depreciated	<u>39,430,329</u>	<u>4,535,896</u>	<u>3,622,269</u>	<u>40,343,956</u>
Total Net Capital Assets	<u>\$43,315,133</u>	<u>\$5,200,563</u>	<u>\$3,622,269</u>	<u>\$44,893,427</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

The January 1, 2003 balances of the capital assets include the retroactive cost for major infrastructure for periods ending after June 30, 1980 as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Land	\$ 90,601		\$ 90,601
Infrastructure--Land/Right-of-Way	202,650		202,650
Infrastructure--Land Improvements	3,398,404		3,398,404
Infrastructure--Bridges	21,842,873	\$ 10,139,851	11,703,022
Infrastructure--Roads	42,311,055	17,031,969	25,279,086
Infrastructure--Traffic Signals	<u>11,700</u>	<u>7,313</u>	<u>4,387</u>
Total at December 31, 2002	<u>\$67,857,283</u>	<u>\$ 27,179,133</u>	<u>\$40,678,150</u>

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 202,332
Indirect Equipment	
Building	44,300
Shop Equipment	5,406
Net Administrative Expense	
Buildings	6,620
Engineers Equipment	657
Office Equipment and Furniture	14,724
Infrastructure	<u>3,298,675</u>
Total Deprecation Expense	<u>\$3,572,714</u>

NOTE G--DEFERRED COMPENSATION PLAN

The Clinton County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with PEBSCO. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

# CLINTON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM

#### Description of Plan and Plan Assets

The Clinton County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for all qualified employees is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC), with a maximum benefit of 80% of the FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2002.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

#### Funding Policy

Each member was required to contribute a 3% of his or her annual compensation, however the Road Commission pays the 3% contribution on behalf of the employees. The Road Commission is required to contribute at an actuarially determined rate. Based on the 2000 actuarial valuation, the 2002 rate for general-union/AFLCIO, administrative salary and administrative hourly employees was 5.09%, 7.30% and 8.79%, respectively, of annual compensation. For 2003, the actuarial valuation was based on the 2001 rate for general-union/AFLCIO, administrative salary and administrative hourly employees which was 6.35%, 9.89% and 11.34%, respectively, of annual compensation. The employee contribution rate was 3% for both years and is paid by the Road Commission.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

During the calendar year ended December 31, 2003, the Road Commission's contributions totaling \$253,273 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001 and 3% employee share. The amount paid in 2002 was \$136,739 for the employer contribution and \$72,084 for the employee contribution, which was also paid by the employer and were made in accordance with the actuarial valuation of the plan as of December 31, 2000. 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. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	\$ 169,264	100%	\$0
2001	156,875	100%	\$0
2002	208,823	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/00	\$ 8,859,381	\$ 8,953,921	\$ 94,540	99%	\$ 2,141,012	4%
12/31/01	9,147,542	9,639,404	491,862	95%	2,232,686	22%
12/31/02	9,095,478	9,872,236	776,758	92%	2,335,984	33%

# CLINTON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

The Michigan County Road Commission Self-Insurance Pool Program (Pool) operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

### NOTE J--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

## CLINTON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--POST-EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission agrees to pay the full premium for hospitalization medical coverage for retired employees and their spouses, in accordance with the agreement between the Road Commission management and the American Federation of State, county, and municipal employees, AFL-CIO. If the retired employee wishes to purchase full family coverage, he shall pay the difference between the two-person and the full family rate. This provision applies to employees who retire after January 1, 1975 and who qualify under the MERS retirement program. Upon death of the retired employee, the Road Commission agrees to continue the above stated hospitalization insurance for the surviving spouse. Expenditures are recognized on a pay as you go basis as premiums come due. During 2003, 47 retirees and/or spouses were eligible for benefits, and \$405,513 was recognized for post-employment health insurance.

#### NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2002, the Federal aid received and expended by the Road Commission was \$441,950 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the calendar year ended December 31, 2003, the Road Commission did not receive any Federal grants for negotiated projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$300,000 or more. A single audit was not performed during for the calendar year ended December 31, 2003.

#### NOTE M--CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2002, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, "Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

# CLINTON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE M--CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34.

**CLINTON COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2003**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 80,000	\$ 102,925	\$ 102,925	-
Federal Aid				
Surface Transportation Program	1,646,550	412,276	412,275	\$ (1)
Hazard Elimination Safety				
Federal Critical Bridge	963,000	13,792	13,791	(1)
Economic D Funds	349,520	15,884	15,884	-
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,184,229	3,184,229	3,469,385	285,156
Local Road	1,864,811	1,864,811	1,925,630	60,819
Primary Urban Road	396,325	396,325	411,808	15,483
Local Urban Road	133,650	133,650	141,803	8,153
Critical Bridge	183,970	2,587	2,586	(1)
Economic Development Funds				
"D" Funds	254,310	6,875	6,874	(1)
Contributions--Local Units				
Cities and Villages	2,500	15,901	15,900	(1)
Townships	1,628,292	1,525,227	1,532,848	7,621
Charges for Services				
State Trunkline Maintenance	1,155,400	1,135,497	1,180,098	44,601
Salvage Sales	3,000	1,033	-	(1,033)
Service Charge	98,800	103,062	103,837	775
Interest and Rents				
Interest Earned	25,000	16,072	16,072	-
Property Rentals	1,640	1,640	1,638	(2)
Other Revenue				
Private Contributions	-	2,053,856	2,053,854	(2)
Reimbursements	-	12,850	12,845	(5)
Gain on Equipment Disposal	56,500	35,724	37,943	2,219
Total Operating Revenue	12,037,497	11,044,216	\$ 11,467,996	\$ 423,780
Fund Balance--January 1, 2003	1,085,627	2,350,595		
Total Budget	\$ 13,123,124	\$ 13,394,811		

**CLINTON COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
STATEMENT OF EXPENDITURES--BUDGET AND ACTUAL  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2003**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction	\$ 31,998	\$ 31,998	\$ 31,998	-
Heavy Maintenance	2,773,652	1,264,291	1,264,291	-
Maintenance	793,366	1,571,425	1,571,424	\$ 1
Local Road				
Construction	-	2,094,377	2,094,377	-
Heavy Maintenance	1,072,400	1,076,187	1,076,186	1
Maintenance	1,971,918	3,172,169	3,172,167	2
Primary Road Structure				
Heavy Maintenance	2,300	-	-	-
Maintenance	10,034	129,539	129,539	-
Local Road Structure				
Construction	106,614	106,614	106,614	-
Heavy Maintenance	1,242,846	48,334	48,328	6
Maintenance	49,524	76,923	76,922	1
State Trunkline Maintenance	1,155,400	1,156,290	1,156,288	2
Equipment Expense--Net	(40,460)	(362,627)		
Direct			\$ 683,814	
Indirect			681,883	
Operating			196,066	
Less: Equipment Rentals			<u>(1,928,407)</u>	
			(366,644)	4,017
Distributive Expenditures	2,111,370			
Administrative Expense--Net	370,450	477,851		
Administrative Expense			558,251	
Less: Handling Charges			(1,355)	
Overhead--State			(99,627)	
Overhead--Other			-	
Purchase Discounts			<u>(5,127)</u>	
			452,142	25,709
Non-Road Project	-	27,604	48,860	(21,256)
Capital Outlay--Net	(121,400)	(42,722)		
Capital Outlay			578,770	
Less: Depreciation Credits			(274,039)	
Equipment Retirements			<u>(49,555)</u>	
			255,176	(297,898)
Debt Service				
Principal	7,500	7,500	7,500	-
Interest	3,000	3,000	3,000	-
Drainage District	53,070	53,478	53,477	1
Contingencies	443,915			
<b>Total Expenditures</b>	<b>12,037,497</b>	<b>10,892,231</b>	<b>\$ 11,181,645</b>	<b>\$ (289,414)</b>
Fund Balance--December 31, 2003	1,085,627	2,502,580		
<b>Total Budget</b>	<b>\$ 13,123,124</b>	<b>\$ 13,394,811</b>		

**CLINTON COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended December 31, 2003**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 4,423,467	\$ 5,590,395	\$ 1,454,134	\$ 11,467,996
Total Expenditures	3,069,961	6,737,568	1,374,116	11,181,645
Excess of Revenues Over (Under) Expenditures	1,353,506	(1,147,173)	80,018	286,351
Other Financing Sources (Uses) Optional Transfers	(1,164,007)	1,164,007		-
Total Other Financing Sources (Uses)	(1,164,007)	1,164,007	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	189,499	16,834	80,018	286,351
Fund Balance--January 1, 2003	480,082	634,526	1,191,387	2,305,995
Fund Balance--December 31, 2003	<u>\$ 669,581</u>	<u>\$ 651,360</u>	<u>\$ 1,271,405</u>	<u>\$ 2,592,346</u>

**CLINTON COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended December 31, 2003**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits	\$ 20,997	\$ 27,687	\$ 54,241	\$ 102,925
Federal Aid				
Surface Transportation Program	412,275	-	-	412,275
Federal Critical Bridge		13,791		13,791
Economic D Funds	15,884			15,884
State Aid				
Michigan Transportation Fund				
Engineering	6,430	3,570		10,000
Allocation	3,469,385	1,925,630		5,395,015
Urban Roads	411,808	141,803		553,611
Critical Bridge		2,586		2,586
Economic Development Funds				
"D" Funds	6,874			6,874
Contributions--Local Units				
Cities and Villages	-	-	15,900	15,900
Townships	-	1,532,848	-	1,532,848
Charges for Services				
State Trunkline Maintenance			1,180,098	1,180,098
Service Charge			103,837	103,837
Interest and Rents				
Interest Earned	3,279	4,323	8,470	16,072
Property Rentals	-	-	1,638	1,638
Other Revenue				
Private Contributions	76,535	1,938,157	39,162	2,053,854
Reimbursements	-	-	12,845	12,845
Gain on Equipment Disposal	-	-	37,943	37,943
<b>Total Operating Revenue</b>	<b>\$4,423,467</b>	<b>\$5,590,395</b>	<b>\$ 1,454,134</b>	<b>\$11,467,996</b>

**CLINTON COUNTY ROAD COMMISSION  
ANALYSIS OF EXPENDITURES  
For the Year Ended December 31, 2003**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Construction	\$ 31,998			\$ 31,998
Heavy Maintenance	1,264,291			1,264,291
Maintenance	1,571,424			1,571,424
Local Road				
Construction		\$2,094,377		2,094,377
Heavy Maintenance		1,076,186		1,076,186
Maintenance		3,172,167		3,172,167
Primary Road Structures				
Maintenance	129,539			129,539
Local Road Structures				
Construction		106,614		106,614
Heavy Maintenance		48,328		48,328
Maintenance		76,922		76,922
State Trunkline Maintenance			\$1,156,288	1,156,288
Equipment Expense--Net (Per Exhibit D)	(86,015)	(183,506)	(97,124)	(366,645)
Administrative Expense--Net (Per Exhibit D)	141,580	310,562		452,142
Work for Other Agencies			48,860	48,860
Capital Outlay--Net (Per Exhibit D)	-	-	255,177	255,177
Debt Service				
Principal	-	-	7,500	7,500
Interest	-	-	3,000	3,000
Drainage District	17,144	35,918	415	53,477
<b>Total Expenditures</b>	<b>\$3,069,961</b>	<b>\$6,737,568</b>	<b>\$1,374,116</b>	<b>\$11,181,645</b>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JAY B. RISING  
STATE TREASURER

March 5, 2004

Board of County Road Commissioners  
Clinton County  
3535 South US 27  
St. Johns, Michigan 48879

RE: Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Clinton County Road Commission, a component unit of Clinton County, as of and for the year ended December 31, 2003, and have issued our report thereon dated March 5, 2004. 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.

Compliance--As part of obtaining reasonable assurance about whether the Clinton 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance, which we have reported to the management of Clinton County Road Commission in the accompanying comment and recommendation as finding 03-1.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Clinton County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing

their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Clinton County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'Cary Jay Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# CLINTON COUNTY ROAD COMMISSION

## COMMENTS AND RECOMMENDATIONS

### OTHER REPORTABLE CONDITIONS

Although our study and evaluation of the internal control structure disclosed no condition that we believe to be a material weakness, our audit disclosed certain other reportable conditions which we wish to point out for consideration by the management of the Clinton County Road Commission.

### STATUTORY COMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

#### Uniform Budgeting and Accounting Act Provisions--Expenditures

*Finding 03-1*

*Condition:* As detailed in Exhibit H, expenditures in 2 activities exceeded the amended budget, and expenditures exceeded the budget in total.

*Criteria:* The expenditure of funds in excess of the budget is contrary to the provisions of Section 17 of Public Act 2 of 1968, which provides, in part, as follows:

"Except as otherwise provided in Section 19, a deviation from the original general appropriations act (budget) shall not be made without amending the general appropriations act. The legislative body (board of county road commissioners) of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined."

Section 18(3) also provides, in part, that:

"...except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

We direct the Road Commission to comply with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act, being MCL 141.421 through 141.440.