

Berrien County Road Commission

**Financial Report
with Supplemental Information
September 30, 2009**

Berrien County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the accompanying financial statements of the governmental activities and major governmental fund of Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") as of and for the year ended September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions 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 governmental activities and major governmental fund of Berrien County Road Commission at September 30, 2009 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not required parts 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.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The other supplemental 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 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 financial statements taken as a whole.

To the Board of Road Commissioners
Berrien County Road Commission

In accordance with *Government Auditing Standards*, we have also issued a report dated December 23, 2009 on our consideration of the Road Commission's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

December 23, 2009

Berrien County Road Commission

Management's Discussion and Analysis

This section of 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 ended September 30, 2009. 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 approximately \$.9 million.
- Total revenues of \$16.6 million exceeded total expenditures for the year of \$15.7 million by \$.9 million.
- Approximately \$6.1 million was invested in capital assets during the year.
- The obligation for postemployment benefits has been reflected using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 plan members.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The governmental fund 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 column presents a short-term view of the Road Commission; it tells 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 revenues, expenditures, and changes in fund balance/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 column tells 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 supplemental 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 Road Commission's net assets increased during 2009 by \$.9 million, ending the year at \$83.7 million. The table below shows the composition of the Road Commission's net assets at September 30, 2009, 2008, and 2007:

	Governmental Activities		
	2009	2008	2007
Assets			
Current and other assets	\$ 6,771,625	\$ 7,388,178	\$ 7,536,293
Capital assets	<u>80,580,970</u>	<u>79,866,345</u>	<u>79,402,656</u>
Total assets	87,352,595	87,254,523	86,938,949
Liabilities			
Long-term liabilities outstanding	1,990,331	2,050,770	2,012,344
Other liabilities	<u>1,637,848</u>	<u>2,336,413</u>	<u>1,679,606</u>
Total liabilities	<u>3,628,179</u>	<u>4,387,183</u>	<u>3,691,950</u>
Net Assets			
Invested in capital assets - Net of related debt	78,231,170	77,626,545	77,017,856
Restricted for debt service	171,281	171,386	168,566
Unrestricted	<u>5,321,965</u>	<u>5,069,409</u>	<u>6,060,577</u>
Total net assets	<u>\$ 83,724,416</u>	<u>\$ 82,867,340</u>	<u>\$ 83,246,999</u>

Changes in Net Assets - The Road Commission's change in net assets was due primarily 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 2009, there was a \$347,000 decrease in Michigan Transportation Funds receipts, an increase of \$1,838,000 in federal and state aid due to the receipt of American Recovery and Reinvestment Act (ARRA) funds and the timing of projects receiving this aid, and a \$125,000 increase in revenue from local governments. The ARRA funds represent a one-time funding source from the federal government to stimulate the economy by providing states with funding for investment in highway infrastructure. Other revenue decreased \$1,121,000 due to lower amounts provided by the Michigan Department of Transportation (MDOT) for non-maintenance projects on MDOT roads.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Expenditures were \$700,000 below 2008. The decrease in expenses is primarily attributed to the decline in state non-maintenance projects in 2009.

	Governmental Activities		
	2009	2008	2007
Revenue			
State aid - Act 51	\$ 10,220,635	\$ 10,567,848	\$ 10,836,127
Federal/State sources	4,185,860	2,348,258	1,238,005
Revenue from local governments	2,016,650	1,891,477	2,091,720
Other	178,786	1,300,203	891,570
Total revenue	16,601,931	16,107,786	15,057,422
Expenses			
Maintenance	9,710,784	10,342,757	9,156,352
Administrative	1,170,684	1,193,193	1,231,795
Depreciation	5,426,687	5,449,031	5,505,183
Interest and other	(563,300)	(497,536)	(124,894)
Total expenses	15,744,855	16,487,445	15,768,436
Change in Net Assets	\$ 857,076	\$ (379,659)	\$ (711,014)

Financial Analysis of Commission's Funds

The Road Fund fund balance ended the year at \$5.7 million, which is \$546,000 more than the previous year. Portions of this balance are reserved for anticipated needs in the near future. The total reserved fund balance is \$350,000. The remaining unreserved fund balance is \$5.3 million.

Road Fund Budgetary Highlights

The Road Commission amended its 2009 budget on one occasion during the year to reflect changes in budgeted projects and activities. The final expenditure budget was \$1.9 million lower than the original budget. Expenses were decreased primarily as a result of a reduction in road projects in 2009.

Capital Assets

The Road Commission had \$80.6 million in net capital assets at the end of the year, which includes \$64.1 million of infrastructure activities.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

The Michigan Transportation Fund (MTF), the repository of fuel taxes and vehicle registration fees collected by the State, is the principal source of Road Commission funding. Based on the last 12-month MTF revenue collection report by the Department of Treasury, the MTF is lower than the previous year, which resulted in a decrease of \$347,000 to the Road Commission in fiscal year 2009.

The money to be received from the Michigan Transportation Fund in 2010 is expected to be 4 percent lower than in 2009. This will result in fewer road construction projects for 2010 due to the higher road material costs and employee benefit costs that will not be offset by any additional revenue to cover the increases.

World political conditions may affect crude oil prices which 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, P.O. Box 768, Benton Harbor, MI 49023-0768 or visit our webpage at www.bcroad.org.

Berrien County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets September 30, 2009

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 2,413,709	\$ -	\$ 2,413,709
Restricted cash - Debt service (Note 3)	171,281	-	171,281
Due from other government units	2,758,340	-	2,758,340
Inventory	965,408	-	965,408
Prepaid expenses	175,777	-	175,777
Deferred expense	287,110	-	287,110
Capital assets - Net (Note 4):			
Assets being depreciated	-	65,812,469	65,812,469
Assets not being depreciated	-	14,768,501	14,768,501
Total assets	<u>\$ 6,771,625</u>	80,580,970	87,352,595
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	\$ 535,401	-	535,401
Advances	374,447	-	374,447
Deferred revenue (Note 5)	193,681	(193,681)	-
Escrow	4,000	-	4,000
Compensated absences - Due within one year (Note 6)	-	84,000	84,000
Long-term debt - Due within one year (Note 7)	-	640,000	640,000
Long-term debt - Due in more than one year (Note 7)	-	1,709,800	1,709,800
Long-term obligation for retiree healthcare benefits (Note 10)	-	280,531	280,531
Total liabilities	1,107,529	2,520,650	3,628,179
Fund Balances			
Reserved for debt service	171,281	(171,281)	-
Reserved for prepaid expenses	175,777	(175,777)	-
Unreserved	5,317,038	(5,317,038)	-
Total fund balances	<u>5,664,096</u>	<u>(5,664,096)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 6,771,625</u>		
Net Assets			
Investments in capital assets - Net of related debt		78,231,170	78,231,170
Restricted for debt service		171,281	171,281
Unrestricted		5,321,965	5,321,965
Total net assets		<u>\$83,724,416</u>	<u>\$ 83,724,416</u>

Berrien County Road Commission

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended September 30, 2009

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Revenue			
State aid - Act 51	\$ 10,220,635	\$ -	\$ 10,220,635
Federal/State sources	4,415,860	(230,000)	4,185,860
Revenue from local governments	1,936,550	-	1,936,550
Contribution of infrastructure	-	80,100	80,100
Interest, fees, and other revenue	178,587	199	178,786
Total revenue	16,751,632	(149,701)	16,601,931
Expenditures			
Current:			
Primary heavy maintenance	3,207,101	(3,207,101)	-
Primary heavy maintenance - Safety	11,186	(11,186)	-
Primary heavy maintenance - Bridges	687,333	(687,333)	-
Local heavy maintenance	1,204,834	(1,204,834)	-
Local heavy maintenance - Safety	345,670	(174,242)	171,428
Local heavy maintenance - Bridges	737,921	(737,921)	-
Primary maintenance	4,378,185	-	4,378,185
Local maintenance	5,029,455	-	5,029,455
State maintenance	73,123	-	73,123
Other nonmaintenance	19,323	-	19,323
County drain assessments	39,270	-	39,270
Administrative	1,222,444	(51,760)	1,170,684
Net capital outlay	(665,803)	665,803	-
Less equipment rental charged to other expenditures	(19,960)	(591,178)	(611,138)
Depreciation expense	-	5,426,687	5,426,687
Debt service:			
Principal retirement	490,000	(490,000)	-
Interest/Fees	47,838	-	47,838
Total expenditures	16,807,920	(1,063,065)	15,744,855
Excess of Revenue Over (Under) Expenditures	(56,288)	913,364	857,076
Other Financing Sources			
Face amount of issuance of long-term debt	600,000	(600,000)	-
Proceeds from sale of assets	2,300	(2,300)	-
Total other financing sources	602,300	(602,300)	-
Change in Fund Balance/Net Assets	546,012	311,064	857,076
Fund Balance/Net Assets - Beginning of year	5,118,084	77,749,256	82,867,340
Fund Balance/Net Assets - End of year	\$ 5,664,096	\$ 78,060,320	\$ 83,724,416

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 1 - Significant Accounting Policies

Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") 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 basic 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:

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 government-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.

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

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 it is 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.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 1 - Significant Accounting Policies (Continued)

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.

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.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line, units of production, or sum of years - digits 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 the governmental fund only for employee terminations as of year end. The Road Commission does not accrue for unused sick pay benefits.

Pension and Other Postretirement Benefits - The Road Commission offers both pension and retiree healthcare benefits to retirees. The Road Commission receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the pension obligation over the remaining amortization period. The Road Commission has elected to calculate the ARC necessary to fund the retiree healthcare obligation using an alternative measurement method permitted by GASB Statement No. 45. In the road fund, pension and OPEB costs are recognized as contributions are made. For the government-wide statements, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest and adjustment to the ARC on the beginning of year underpaid amount, if any.

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statement column. Bond premiums 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.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 1 - Significant Accounting Policies (Continued)

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 the financial statements.

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 fund - Fund balance	\$ 5,664,096
Capital assets used in governmental activities are not financial resources and are not reported in the fund	80,580,970
Amounts due from federal government not collected within 60 days of year end are not available to pay for current year expenditures and are deferred in the fund	193,681
Long-term liabilities are not due and payable in the current period and are not reported in the fund	(2,349,800)
Long-term postretirement benefit obligations are not due and payable in the current period and are not reported in the fund	(280,531)
Compensated absences are not reported in the fund	<u>(84,000)</u>
Total government-wide net assets	<u>\$ 83,724,416</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balance - Total governmental fund	\$ 546,012
The governmental fund reports capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Current year additions	6,063,314
Depreciation	(5,426,687)
Contributions of infrastructure are recorded in the statement of activities, but are not recorded in the governmental fund	80,100
In the statement of activities, only the loss on the sale of capital proceeds is reported, whereas in the governmental fund, the proceeds from the sale are reported. Therefore, the change in net assets differs from the fund balance by the net book value of the assets sold	(2,102)
Payments of accumulated employee vacation payable are recorded as an expense when earned in the statement of activities	(4,000)
Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	490,000
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	(600,000)
In the governmental fund, special assessment and grant 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	(230,000)
In the statement of activities, long-term postretirement benefit obligations are reported as expense, but not in the governmental fund	<u>(59,561)</u>
Change in net assets of governmental activities	<u>\$ 857,076</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated two banks for the deposit of its funds, in addition to funds held by Berrien County. The Road Commission follows the investment policy adopted by Berrien County. In accordance with Public Act 196 of 1997, the policy has authorized investment in bonds and securities and other obligations of the United States government; bank accounts and certificates of deposit; limited commercial paper, not to exceed 25 percent of any fund; repurchase agreements limited to United States government investments; and certain investment pools, excluding mutual funds. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had approximately \$603,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were 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 deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. Treasury pooled investments	\$ 2,020,745	15.5 years

Credit Risk

State law limits investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality rating of U.S. agencies' securities (other than U.S. government) was AAA by Standard & Poor's.

Concentration of Credit Risk

The Road Commission places no limit on the amount that may be invested in any one issuer.

Investment	Percent
United States Treasury pooled investments	100.00%

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 14,706,539	\$ 61,962	\$ -	\$ 14,768,501
Capital assets being depreciated:				
Buildings and storage bins	2,191,428	-	-	2,191,428
Road equipment	10,479,953	24,495	24,390	10,480,058
Other equipment	998,903	16,204	13,822	1,001,285
Infrastructure	<u>133,339,082</u>	<u>6,040,753</u>	<u>-</u>	<u>139,379,835</u>
Subtotal	147,009,366	6,081,452	38,212	153,052,606
Less accumulated depreciation:				
Buildings and storage bins	1,660,560	61,514	-	1,722,074
Road equipment	8,875,147	591,178	24,188	9,442,137
Other equipment	762,106	53,810	11,922	803,994
Infrastructure	<u>70,551,747</u>	<u>4,720,185</u>	<u>-</u>	<u>75,271,932</u>
Subtotal	<u>81,849,560</u>	<u>5,426,687</u>	<u>36,110</u>	<u>87,240,137</u>
Net capital assets being depreciated	<u>65,159,806</u>	<u>654,765</u>	<u>2,102</u>	<u>65,812,469</u>
Net capital assets	<u>\$ 79,866,345</u>	<u>\$ 716,727</u>	<u>\$ 2,102</u>	<u>\$ 80,580,970</u>

The Road Commission had commitments for construction contracts totaling approximately \$527,000 at September 30, 2009.

Note 5 - Deferred Revenues

Deferred revenues for the year ended September 30, 2009 were as follows:

Due from federal government	<u>\$ 193,681</u>
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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

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 length of service with the Road Commission.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Road Commission as of September 30, 2009:

	Interest Rate	Maturing Through	Beginning Balance	Additions	Reductions	Principal Outstanding	Amount Due Within One Year
General obligations:							
2000 Michigan Department of Transportation Bond	4.5% to 4.75%	2010	\$ 1,190,000	\$ -	\$ (350,000)	\$ 840,000	\$ 400,000
Berrien Township - Note payable	3% to 6%	2014	269,800	200,000	(50,000)	419,800	50,000
Watervliet Township - Notes payable	0%	2018	780,000	-	(90,000)	690,000	90,000
Bainbridge Township - Notes payable	3%	2013	-	200,000	-	200,000	50,000
Coloma Township - Notes payable	3%	2013	-	200,000	-	200,000	50,000
Total			<u>\$ 2,239,800</u>	<u>\$ 600,000</u>	<u>\$ (490,000)</u>	<u>\$ 2,349,800</u>	<u>\$ 640,000</u>
Other long-term obligations:							
Obligation for retiree healthcare benefits	N/A	N/A	\$ 220,970	\$ 59,561	\$ -	\$ 280,531	\$ -
Employee compensated absences	N/A	N/A	80,000	4,000	-	84,000	84,000
Total			<u>\$ 300,970</u>	<u>\$ 63,561</u>	<u>\$ -</u>	<u>\$ 364,531</u>	<u>\$ 84,000</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 7 - Long-term Debt (Continued)

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, 2009:

Balance - Beginning of year	\$ 2,239,800
Face amount of debt issued	600,000
Debt retired	<u>(490,000)</u>
Balance - End of year	<u>\$ 2,349,800</u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2009 (excluding liabilities for compensated absences and obligation for retiree healthcare benefits) are as follows:

Fiscal Years Ending September 30	Principal	Interest	Total
2010	\$ 640,000	\$ 42,300	\$ 682,300
2011	680,000	26,950	706,950
2012	240,000	13,500	253,500
2013	240,000	10,500	250,500
2014	140,000	7,500	147,500
2015-2018	<u>409,800</u>	<u>13,376</u>	<u>423,176</u>
Total	<u>\$ 2,349,800</u>	<u>\$ 114,126</u>	<u>\$ 2,463,926</u>

Interest

Interest expense of the Road Commission for the year ended September 30, 2009 was \$47,838.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 8 - Risk Management

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 torts, errors and omissions, and property liability. The Road Commission participates in the County Road Association Self-insurance Fund for workers' compensation insurance. Settled claims relating to 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.

Note 9 - Budget Information

The annual budget is prepared by the Road Commission's 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 are 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 supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Commission incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
Local heavy maintenance	\$ 947,171	\$ 1,204,834

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 9 - Budget Information (Continued)

The budget overage is due to a reclassification of project costs between primary road heavy maintenance and local road heavy maintenance. Primary heavy maintenance has a favorable budget variance of \$354,334.

Note 10 - Postemployment Benefits

Plan Description

The Road Commission provides retiree healthcare benefits to eligible employees. This is a single employer defined benefit plan administered by the Road Commission. The benefits are provided under the collective bargaining agreement for union employees and by the Road Commission resolution for nonunion employees.

Funding Policy

The agreements require a contribution of \$370 per month for married employees and \$220 per month for single employees from retiree age 60 to 65. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). Therefore, the Road Commission has elected not to fund the plan in advance.

The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 plan members. ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Road Commission's annual OPEB cost for the year was \$59,561. No contributions were made to the plan during the year ended September 30, 2009. As of September 30, 2009, there were 13 retirees participating in the plan and premiums paid by the Road Commission totaled approximately \$20,000.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 11 - 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 supplemental 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 commission resolution and requires a contribution from the employees of 6 percent of compensation. The Road Commission is required to contribute at an actuarially determined rate, currently 8.94 percent of payroll. The Road Commission's contributions to the plan for the years ended September 30, 2009, 2008, and 2007 were \$310,842, \$298,900, and \$295,804, respectively. The contributions are equal to or greater than the required contributions for each year.

Note 12 - Upcoming Reporting Changes

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the Road Commission's 2010 fiscal year end. This statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. This statement also establishes specified conditions upon which internally generated intangible assets should be recognized and amortized, including internally generated computer software. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted.

Berrien County Road Commission

Notes to Financial Statements September 30, 2009

Note 12 - Upcoming Reporting Changes (Continued)

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The Road Commission will implement Statement No. 54 beginning with the fiscal year ending September 30, 2011.

Required Supplemental Information

Berrien County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2009

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 10,350,000	\$ 10,350,000	\$ 10,220,635	\$ (129,365)
Federal/State sources	5,919,500	4,305,503	4,415,860	110,357
Revenue from local governments	1,375,000	958,842	1,936,550	977,708
Interest, fees, and other revenue	120,000	33,755	178,587	144,832
Total revenue	17,764,500	15,648,100	16,751,632	1,103,532
Expenditures				
Current:				
Primary construction	5,000	-	-	-
Primary heavy maintenance	5,478,000	3,561,435	3,207,101	354,334
Primary heavy maintenance - Safety	2,000	11,734	11,186	548
Primary heavy maintenance - Bridges	757,000	904,677	687,333	217,344
Local heavy maintenance	1,565,000	947,171	1,204,834	(257,663)
Local heavy maintenance - Safety	87,000	374,269	345,670	28,599
Local heavy maintenance - Bridges	568,000	766,878	737,921	28,957
Primary maintenance	4,600,000	4,600,000	4,378,185	221,815
Local maintenance	5,122,000	5,200,000	5,029,455	170,545
Administrative	1,350,000	1,300,000	1,222,444	77,556
State maintenance	75,000	81,704	73,123	8,581
State nonmaintenance	100,000	-	-	-
Other nonmaintenance	-	19,927	19,323	604
County drain assessments	40,000	42,543	39,270	3,273
Equipment and capital outlay - Net of depreciation credits	(589,500)	(602,720)	(685,763)	83,043
Debt service:				
Principal retirement	450,000	490,000	490,000	-
Interest/Fees	47,838	47,975	47,838	137
Total expenditures	19,657,338	17,745,593	16,807,920	937,673
Excess of Expenditures Over Revenue	(1,892,838)	(2,097,493)	(56,288)	2,041,205
Other Financing Sources				
Face amount of issuance of long-term debt	-	600,000	600,000	-
Proceeds from sale of assets	2,000	2,300	2,300	-
Total other financing sources	2,000	602,300	602,300	-
Excess of Financing Sources Over (Under) Expenditures	(1,890,838)	(1,495,193)	546,012	2,041,205
Fund Balance - Beginning of year	5,118,084	5,118,084	5,118,084	-
Fund Balance - End of year	\$ 3,227,246	\$ 3,622,891	\$ 5,664,096	\$ 2,041,205

Other Supplemental Information

Berrien County Road Commission

Other Supplemental Information Schedule of Changes in Road Fund Balances Year Ended September 30, 2009

	Primary Road	Local Road	County Road	Total
Total Revenue	\$ 10,340,324	\$ 6,130,443	\$ 280,865	\$ 16,751,632
Total Expenditures	<u>9,561,088</u>	<u>7,722,560</u>	<u>(475,728)</u>	<u>16,807,920</u>
Excess of Revenue Over (Under) Expenditures	779,236	(1,592,117)	756,593	(56,288)
Other Financing Sources	<u>600,000</u>	<u>-</u>	<u>2,300</u>	<u>602,300</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	1,379,236	(1,592,117)	758,893	546,012
Interfund Transfer	(1,592,117)	1,592,117	-	-
Fund Balance - Beginning of year	<u>1,741,541</u>	<u>-</u>	<u>3,376,543</u>	<u>5,118,084</u>
Fund Balance - End of year	<u>\$ 1,528,660</u>	<u>\$ -</u>	<u>\$ 4,135,436</u>	<u>\$ 5,664,096</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Revenue Year Ended September 30, 2009

	Primary Road	Local Road	County Road	Total
State aid - Act 51:				
Michigan Transportation Fund:				
Engineering	\$ 6,667	\$ 3,333	\$ -	\$ 10,000
Allocation	5,793,498	2,753,140	-	8,546,638
Urban roads	1,116,490	510,019	-	1,626,509
Snow removal	24,742	12,746	-	37,488
Federal/State sources:				
Critical bridge	226,813	106,606	-	333,419
Economic development	13,665	-	-	13,665
Surface transportation program	2,109,203	-	-	2,109,203
Bridge	366,089	569,379	-	935,468
Congestion/Air quality	187,900	-	-	187,900
Safe Routes to School	-	-	171,428	171,428
ARRA/Safety/BIA	401,419	263,358	-	664,777
Contributions:				
Township	10,000	1,756,285	-	1,766,285
County	-	119,655	23,461	143,116
City and village	-	27,149	-	27,149
Other revenue:				
Interest earned	32	-	7,445	7,477
Trunkline maintenance	75,033	-	-	75,033
Salvage sales	-	-	13,514	13,514
Indrive culvert	8,773	8,773	-	17,546
Other	-	-	65,017	65,017
Total revenue	<u>\$ 10,340,324</u>	<u>\$ 6,130,443</u>	<u>\$ 280,865</u>	<u>\$ 16,751,632</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Expenditures Year Ended September 30, 2009

	Primary Road	Local Road	County Road	Total
Primary road:				
Heavy maintenance	\$ 3,207,101	\$ -	\$ -	\$ 3,207,101
Maintenance	4,378,185	-	-	4,378,185
Safety	11,186	-	-	11,186
Local road:				
Heavy maintenance	-	1,204,834	-	1,204,834
Maintenance	-	5,029,455	-	5,029,455
Safety	-	174,242	171,428	345,670
Primary road structures -				
Heavy maintenance	687,333	-	-	687,333
Local road structures -				
Heavy maintenance	-	737,921	-	737,921
Charges for services -				
State maintenance	73,123	-	-	73,123
Administrative expense - Net	656,275	566,169	-	1,222,444
Net equipment expense	(9,588)	(9,696)	(676)	(19,960)
Net capital outlay	-	-	(665,803)	(665,803)
Debt service:				
Debt principal payments	490,000	-	-	490,000
Interest expense	47,838	-	-	47,838
Drain assessment	19,635	19,635	-	39,270
Other - Non-road expense	-	-	19,323	19,323
Total expenditures	<u>\$ 9,561,088</u>	<u>\$ 7,722,560</u>	<u>\$ (475,728)</u>	<u>\$ 16,807,920</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Administrative Expenditures Year Ended September 30, 2009

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Office salaries and wages		\$ 962,679	
Repairs and maintenance		218	
Professional services		58,382	
Conference and travel		17,737	
Office supplies		21,246	
Advertising		4,137	
Dues and subscriptions		12,481	
Telephone		20,514	
Insurance		39,734	
Depreciation		45,077	
Equipment rental		22,322	
Utilities		12,480	
Miscellaneous		5,437	
Total administrative expenditures	<u>\$ 1,300,000</u>	<u>\$ 1,222,444</u>	<u>\$ 77,556</u>

Berrien County Road Commission

**Federal Awards
Supplemental Information
September 30, 2009**

Berrien County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the financial statements of the governmental activities and major governmental fund of Berrien County Road Commission (the "Road Commission") (a component unit of Berrien County, Michigan) as of and for the year ended September 30, 2009, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated December 23, 2009. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these basic 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 basic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berrien County Road Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 23, 2009

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the financial statements of the governmental activities and major governmental fund of Berrien County Road Commission (the "Road Commission") (a component unit of Berrien County, Michigan) as of and for the year ended September 30, 2009, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated December 23, 2009. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berrien County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Road Commissioners
Berrien County Road Commission

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berrien County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Berrien County Road Commission in a separate letter dated December 23, 2009.

This report is intended solely for the information and use of management, the Board of Road Commissioners, others within the entity, 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.

Plante & Moran, PLLC

December 23, 2009

Report on Compliance with Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Road Commissioners
Berrien County Road Commission

Compliance

We have audited the compliance of Berrien County Road Commission (a component unit of Berrien County, Michigan) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 2009. The major federal program of Berrien County Road Commission is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Berrien County Road Commission's management. Our responsibility is to express an opinion on Berrien County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Berrien County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Berrien County Road Commission's compliance with those requirements.

In our opinion, Berrien County Road Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

To the Board of Road Commissioners
Berrien County Road Commission

Internal Control Over Compliance

The management of Berrien County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Berrien County Road Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Road Commissioners, others within the entity, 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.

Plante & Moran, PLLC

December 23, 2009

Berrien County Road Commission

Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project Number	Award Amount	Federal Expenditures
Highway Planning and Construction Cluster -				
U.S. Department of Transportation - Passed through the				
Michigan Department of Transportation -				
Highway Research Planning & Construction:	20.205			
Contract No. 09-5421		ARRA 0911 (353)	\$ 91,301	\$ 91,004
Contract No. 09-5422		ARRA 0911 (354)	89,783	89,166
Contract No. 09-5423		ARRA 0911(355)	77,158	77,154
Contract No. 09-5424		ARRA 0911 (352)	69,065	68,535
Contract No. 09-5425		ARRA 0911 (351)	88,603	75,560
Contract No. 2007-0363/A2		-	<u>207,500</u>	<u>189,971</u>
Total Highway Planning and Construction Cluster			623,410	591,390
U.S. Department of Interior, Bureau of Indian Affairs -				
Indian Reservation Roads Program -				
Cooperative Agreement No. AGF2008019	15.021	-	675,000	<u>73,387</u>
Total federal awards				<u>\$ 664,777</u>

Berrien County Road Commission

Note to Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Berrien County Road Commission and is presented on the same basis of accounting as the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Berrien County Road Commission

Schedule of Findings and Questioned Costs Year Ended September 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Research Planning & Construction

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Berrien County Road Commission

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2009

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Berrien County Road Commission

**Report to the Board of Road Commissioners
September 30, 2009**



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To the Board of Road Commissioners
Berrien County Road Commission

We have recently completed our audit of the basic financial statements of Berrien County Road Commission (the "Road Commission") for the year ended September 30, 2009. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, and other recommendations which impact the Road Commission:

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Results of the Audit	1-4
Summary of Unrecorded Possible Adjustments	5-6
Other Recommendations	7-8

We are grateful for the opportunity to be of service to Berrien County Road Commission. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

December 23, 2009

Results of the Audit

December 23, 2009

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the financial statements of Berrien County Road Commission for the year ended September 30, 2009 and have issued our report thereon dated December 23, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 15, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Berrien County Road Commission. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of Berrien County Road Commission's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of Berrien County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate report dated December 23, 2009 regarding our consideration of Berrien County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of Berrien County Road Commission, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 15, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Berrien County Road Commission are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009.

We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the valuation of investment securities.

Management's estimate of the valuation of investment securities is based on the current quoted market rates. We evaluated the key factors and assumptions used to develop the valuation of investment securities in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 23, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Road Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Road Commission, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Road Commission's auditors.

In addition to the comments and recommendations in this letter, our observations and comments regarding Berrien County Road Commission's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report) and we recommend that any matters we have noted there receive your careful consideration.

To the Board of Road Commissioners
Berrien County Road Commission

December 23, 2009

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

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon L. Vargo, CPA
Partner

Client: Berrien County Road Commission
Opinion Unit: Governmental Activities
Y/E: 9/30/2009

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Current Liabilities	Equity	Revenue	Expenses	Income
KNOWN MISSTATEMENTS:							
AI	To adjust accounts payable to actual		\$ 11,100			\$ 11,100	\$ (11,100)
ESTIMATE ADJUSTMENTS:							
BI	None						
IMPLIED ADJUSTMENTS:							
CI	None						
		\$ -	-	\$ -	\$ -	-	-
	Total	\$ -	\$ 11,100	\$ -	\$ -	\$ 11,100	\$ (11,100)

Client: Berrien County Road Commission
Opinion Unit: General Fund
Y/E: 9/30/2009

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Assets	Liabilities	Equity	Revenue	Expenses	Income
KNOWN MISSTATEMENTS:							
A1	To adjust accounts payable to actual		\$ 11,100			\$ 11,100	\$ (11,100)
A2	To defer federal grant revenue		19,000		\$ (19,000)		
ESTIMATE ADJUSTMENTS:							
B1	None						
IMPLIED ADJUSTMENTS:							
C1	None						
		\$ -	-	\$ -	\$ -	-	-
	Total	\$ -	\$ 30,100	\$ -	\$ (19,000)	\$ 11,100	\$ (11,100)

Other Recommendations

Berrien County Road Commission

Other Recommendations

Federal Projects

During our testing of federal projects, we noted that contract modifications on federal projects handled entirely by MDOT were not reviewed by the Board of Road Commissioners. While approval of these modifications is not required, it is important that the board is aware of the additional costs involved in these projects, as the Road Commission is often responsible for payment of some or all of the additional costs. We recommend a review of all contract modifications, as well as a budget to actual statement for the Road Commission's portion of these federal projects by the Board of Road Commissioners.

Investments

Berrien County is responsible for investing excess funds of the Road Commission in legally permissible and allowable investments (as defined by the State of Michigan). The Road Commission then records this investment activity in its general ledger based on the activity recorded by the County in its ledger system. There can be a timing difference between when an investment transaction occurs and when the County records the activity in its general ledger. Due to the current environment of the investment markets, we recommend that Road Commission management take a more active role in monitoring the investment process, including knowledge of the type of investment vehicles used and the impact of any market fluctuation. Management may want to request monthly investment statements and activity from the County to assist in this monitoring process.

Procurement Policy

During our testing of the Road Commission's purchasing procedures, we noted that while the Road Commission is following the State's procurement guidance for road commissions, there has been no formal adoption of a procurement policy. The current procedures in place are deemed to be adequate and are actually more restrictive than the federal requirement thresholds for bids, price quotes, etc. We recommend the Board of Road Commissioners formally adopt a procurement policy that addresses the process of obtaining and approving bids, the required bid thresholds, and geographical preference.