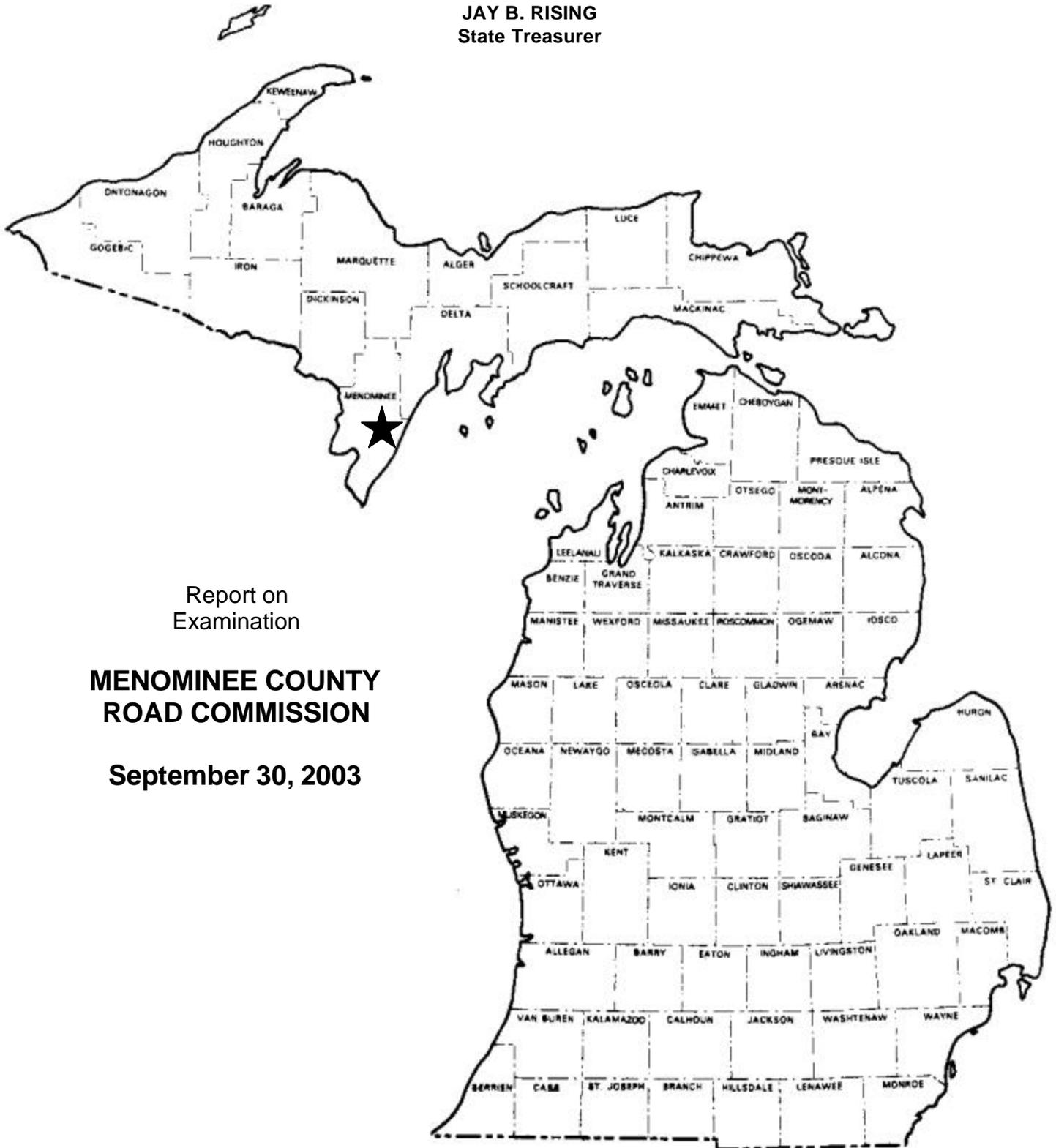


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**MENOMINEE COUNTY
ROAD COMMISSION**

September 30, 2003

Local Audit and Finance Division
Bureau of Local Government Services

MENOMINEE COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

William Anderson
Chairperson

Roger Betzinger
Vice Chairperson

Judy A. Nerat
Member

Darrell W. Moilanen, P.E.
Engineer/Manager

Sandra J. Miller
Clerk/Office Manager

COUNTY POPULATION--2000
25,326

STATE EQUALIZED VALUATION--2003
\$655,991,378



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JAY B. RISING
STATE TREASURER

February 27, 2004

Board of County Road Commissioners
Menominee County
P.O. Box 527
Stephenson, Michigan 49887

RE: Unqualified Opinion on General Purpose Financial Statements

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying general purpose financial statements of the Menominee County Road Commission, a component unit of Menominee County, Michigan, as of and for the year ended September 30, 2003, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these general purpose 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 opinion.

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

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of Menominee County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits F through H are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements, taken as a whole.

Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements, taken as a whole.

A handwritten signature in black ink, appearing to read 'Cary Jay Vaughn', is centered on the page. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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

MENOMINEE COUNTY ROAD COMMISSION

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**MENOMINEE COUNTY ROAD COMMISSION
COMBINED BALANCE SHEET
September 30, 2003**

EXHIBIT A

	GOVERNMENTAL	FIDUCIARY	ACCOUNT GROUP		Total (Memorandum Only)
	FUND TYPE	FUND	General Long-Term Debt	General Fixed Assets	
	General Operating Fund	Profit Sharing Plan			
<u>ASSETS</u>					
Cash	\$ 827,969				\$ 827,969
Investments	466,814				466,814
Deposits With Fiscal Agent		\$ 183,983			183,983
Accounts Receivable					
Interest	4,984				4,984
State Trunkline Maintenance	82,052				82,052
State--Other	751,694				751,694
Due From Other Governmental Units	41,571				41,571
Sundry Accounts	(1,596)				(1,596)
Due on County Road Agreements	292,059				292,059
Inventories					
Road Materials	365,469				365,469
Equipment Parts and Materials	142,937				142,937
Prepaid Expenses	10,000				10,000
Deferred Expense	-				-
Property Plant and Equipment					
Net of Accumulated Depreciation				\$ 2,426,723	2,426,723
Amount to be Provided for					
Payment of Long-Term Debt			\$ 285,369		285,369
Total Assets	<u>\$2,983,953</u>	<u>\$ 183,983</u>	<u>\$ 285,369</u>	<u>\$ 2,426,723</u>	<u>\$ 5,880,028</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities					
Accounts Payable	\$ 277,453				\$ 277,453
Due to State	4,993				4,993
Accrued Liabilities	49,239				49,239
Advances					
Townships	30,000				30,000
Permit Fees	500				500
Private Driveway Plowing	12,548				12,548
State Trunkline Equipment Purchase	126,513				126,513
State Trunkline Maintenance	41,780				41,780
Installment Purchase Agreement Payable			\$ 1,627		1,627
Vested Employee Benefits Payable			283,742		283,742
Total Liabilities	<u>543,026</u>	<u>\$ -</u>	<u>285,369</u>	<u>\$ -</u>	<u>828,395</u>
Fund Equities					
Investment in General Fixed Assets				2,426,723	2,426,723
Fund Balance					
Reserved for					
Profit Sharing Plan		183,983			183,983
Inventory	508,406				508,406
Long-Term Receivables	296,828				296,828
Unreserved and Undesignated	1,635,693				1,635,693
Total Fund Equities	<u>2,440,927</u>	<u>183,983</u>	<u>-</u>	<u>2,426,723</u>	<u>5,051,633</u>
Total Liabilities and Fund Equities	<u>\$2,983,953</u>	<u>\$ 183,983</u>	<u>\$ 285,369</u>	<u>\$ 2,426,723</u>	<u>\$ 5,880,028</u>

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

**MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2003**

EXHIBIT B

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 4,300
Federal Grants	1,454,244
State Aid	4,641,379
Contributions From Local Units	602,630
Charges for Services	566,278
Interest and Rents	38,223
Other Revenue	<u>160,997</u>
Total Revenues	<u>7,468,051</u>
Expenditures	
Public Works	8,464,924
Capital Outlay--Net	(196,407)
Debt Service	<u>2,491</u>
Total Expenditures	<u>8,271,008</u>
Excess of Revenues Over (Under) Expenditures	(802,957)
Fund Balance--October 1, 2002	<u>3,243,884</u>
Fund Balance--September 30, 2003	<u><u>\$ 2,440,927</u></u>

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

MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES--BUDGET AND ACTUAL
For the Year Ended September 30, 2003

EXHIBIT C

	Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits			
Permits		\$ 4,300	\$ 4,300
Federal Grants			
Contracted			
Critical Bridges	\$ 1,033,600	412,006	(621,594)
Surface Transportation Program	518,273	483,665	(34,608)
Economic Development D Funds	307,680	157,683	(149,997)
High Priority	224,385	257,372	32,987
Negotiated			
Economic Development D Funds		103,518	103,518
Bureau of Indian Affairs	172,800	40,000	(132,800)
State Aid			
Michigan Transportation Fund			
Engineering	10,000	10,000	-
Primary Road	2,038,300	2,080,446	42,146
Local Road	1,321,400	1,346,800	25,400
Urban Primary	74,500	75,424	924
Urban Local	6,300	6,155	(145)
Snow Removal	2,500	2,491	(9)
Critical Bridge	184,800	125,508	(59,292)
Economic Development Fund			
Rural Primary (D)	255,655	255,655	-
Forest Road	161,000	161,019	19
Federal Exchange	577,880	577,881	1
Contributions--Local Units			
Townships	597,000	602,630	5,630
Charges for Services			
State Trunkline Maintenance	522,305	513,742	(8,563)
State Trunkline Non-Maintenance	74,000	49,628	(24,372)
Private Driveway Plowing		1,687	1,687
Salvage Sales		1,221	1,221
Interest and Rents			
Interest Earned	40,700	38,223	(2,477)
Other Revenue			
Sundry Refunds	152,600	114,517	(38,083)
Gain on Equipment Disposals	46,800	46,480	(320)
Total Revenues	8,322,478	<u>\$ 7,468,051</u>	<u>\$ (854,427)</u>
Fund Balance--October 1, 2002	<u>3,243,882</u>		
Total Budget	<u>\$ 11,566,360</u>		

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

MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2003

EXHIBIT D

	Budget	Actual	Variance Favorable (Unfavorable)
Primary Road			
Heavy Maintenance	\$ 2,000,000	\$ 1,887,734	\$112,266
Maintenance	1,412,800	1,508,859	(96,059)
Local Road			
Heavy Maintenance	1,675,000	1,539,842	135,158
Maintenance	1,100,000	1,013,988	86,012
Primary Road Structure			
Heavy Maintenance	1,160,000	1,113,819	46,181
Maintenance	15,000	9,415	5,585
Local Road Structure			
Heavy Maintenance	270,000	146,942	123,058
Maintenance	20,000	15,960	4,040
State Trunkline			
Maintenance	522,305	513,742	8,563
Non-Maintenance	74,000	15,947	58,053
Driveway Plowing	1,655	1,687	(32)
Maintenance for Other Units	85,000	80,366	4,634
Equipment Expense--Net	365,000		
Direct		\$ 1,230,085	
Indirect		395,852	
Operating		168,958	
Less: Equipment Rentals		<u>(1,533,944)</u>	
		260,951	104,049
Administrative Expense--Net	367,750		
Administrative Expense		355,672	355,672
			12,078
Capital Outlay--Net	(180,500)		
Capital Outlay		537,153	
Less: Depreciation Credits		(733,246)	
Equipment Retirements		<u>(314)</u>	
		(196,407)	15,907
Debt Service			
Principal	<u>2,300</u>	<u>2,491</u>	<u>(191)</u>
Total Expenditures	8,890,310	<u>\$ 8,271,008</u>	<u>\$ 619,302</u>
Fund Balance--September 30, 2003	<u>2,676,050</u>		
Total Budget	<u>\$ 11,566,360</u>		

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

**MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF CHANGES IN NET ASSETS
PROFIT SHARING PLAN
For the Fiscal Year Ended September 30, 2002
(Most Current Information Available)**

EXHIBIT E

ADDITIONS

Contributions	
Employer Contributions	<u>\$110,655</u>
Total Contributions	110,655
Investment Earnings	
Capital Gain (Loss)	<u>(35,855)</u>
Total Investment Earnings	<u>(35,855)</u>
Net Investment Earnings	<u>(35,855)</u>
Total Additions	<u>74,800</u>

DEDUCTIONS

Benefits Paid to Participants and Beneficiaries	-
Total Deductions	<u>-</u>

CHANGES IN NET ASSETS 74,800

Net Assets Held in Trust for Profit Sharing Plan	
Beginning of Year	<u>109,183</u>
End of Year	<u><u>\$183,983</u></u>

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

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Menominee County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the 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 Menominee County Road Commission, a discretely presented component unit of Menominee County, and include the Road Commission Operating Fund, Pension Trust Fund, General Fixed Asset Account Group and General Long-Term Debt Account Group.

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

The accounting policies of the Menominee County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A 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. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The financial activities of the Road Commission are recorded in separate funds and account groups categorized as follows:

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Governmental Fund--Special Revenue Fund

General Operating Fund (special revenue fund) is used to account for specific revenue (other than expendable trusts or major capital projects) derived from State and Federal grants, general fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Pension Trust Fund--Profit Sharing Plan

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. This includes a Profit Sharing Plan (Pension Trust Fund).

Account Groups--General Fixed Assets Account Group

This account group presents the fixed assets of the Road Commission utilized in its general operations. Fixed assets used in the general fund type operations are accounted for in the general fixed assets account group, rather than in the governmental funds. All fixed assets are recorded at cost, or if donated, at their estimated fair value on the date donated.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt.

The general fixed assets group of accounts and general long-term debt group of accounts are not funds and do not involve the measurement of the results of operations.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the Road Commission conform to generally accepted accounting principles as applicable to governmental units.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Governmental Funds

The governmental fund type (Special Revenue Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due; and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Profit Sharing Plan Trust Fund

The profit sharing plan trust fund is accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases and decreases in net total assets. This fund follows the accrual basis of accounting. Revenues are recorded when they are measurable and earned, and expenditures when the related liability is incurred.

Cash, Cash Equivalents and Investments

Investments are recorded at cost. Demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

General Fixed Assets and Depreciation

Fixed assets are stated at historical costs or estimated historical costs if actual historical costs are not available. Donated fixed assets are valued at their estimated fair values on the date donated. Governmental fund fixed assets are recorded in the general fixed assets account group.

Fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets, consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are not recorded.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Depreciation on Road Commission fixed assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund.

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

Long-Term Debt

The general long-term debt account group is used to account for long-term liabilities that will be financed from the General Operating Fund.

Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institutions, to the interest-bearing account.

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Total Column on Combined Statements--Overview

The total column on the balance sheet--Exhibit A, is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not represent financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

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. Pursuant to the Act, the Road Commission's chief administrative officer 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. The budget is amended as necessary during the year and is approved by the board. Also, the board has authorized the chief administrative officer to amend the Road Commission's budget when necessary, by transferring up to 20% from one line item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The Road Commission has not complied with certain provisions of the act.

The following activities exceeded the amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Maintenance	\$ 1,412,800	\$ 1,508,859	\$ (96,059)
State Trunkline Driveway Plowing	1,655	1,687	(32)
Debt Service Principal	2,300	2,491	(191)

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other 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; commercial paper rated within the two highest classifications, which mature 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 which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The board has designated three banks for the deposit of the Road Commission funds. The investment policy adopted by the board in accordance with PA 196 of 1997 has authorized all of the investments as listed above.

The Road Commission's deposits and investments are in accordance with statutory authority. The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 500,000	\$ 500,000
Uninsured	376,773	327,819
Imprest Cash		150
Total	<u>\$ 876,773</u>	<u>\$ 827,969</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

Investments

All investments of Road Commission monies are administered by the county treasurer through a financial institution's investment trust account. The mutual funds are not categorized by risk as required by Governmental Accounting Standards Board Statement No. 3, because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The Road Commission's investment is categorized as follows:

	Carrying Amount	Market Value
Nonrisk-Categorized		
Government Portfolio Class II Mutual Funds	\$ 466,814	\$ 466,814
Total Nonrisk-Categorized Investments	\$ 466,814	\$ 466,814

Deposits With Fiscal Agents

Investments accumulated under the retirement (pension) system fund may be placed at the authorization of a governing body, with a financial institution authorized to do business in the State of Michigan, a State or Federally licensed investment company or insurance company authorized to do business in the State of Michigan, or trust established by public employers for the investment of retirement plans. Such funds shall be invested as directed by the governing body. Retirement plan investments are reported at fair value (market).

	Carrying Amount	Fair Value
Nonrisk-Categorized		
American Express Financial Simplified Plan	\$ 183,983	\$ 183,983
Total Nonrisk-Categorized Investments	\$ 183,983	\$ 183,983

NOTE E--RESERVE FOR LONG-TERM RECEIVABLES

An estimated \$296,828 of the amount recorded as "Due on County Road Agreements" is not expected to be received within one year and, accordingly, is reserved from the fund balance available for current operations.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--GENERAL FIXED ASSETS ACCOUNT GROUP

Following is a summary of the changes in the general fixed assets account group.

	Account Balances <u>10/01/2002</u>	<u>Additions</u>	<u>Deductions</u>	Account Balances <u>09/30/2003</u>
Fixed Assets Accounts				
Land and Improvements	\$ 18,100			\$ 18,100
Building	1,028,177	\$ 56,203		1,084,380
Road Equipment	6,483,819	445,110	\$ 229,269	6,699,660
Shop Equipment	178,054	631		178,685
Fuel Distribution Equipment	122,693			122,693
Office Equipment	97,256	33,917	29,621	101,552
Engineer's Equipment	<u>114,619</u>	<u>1,292</u>	<u> </u>	<u>115,911</u>
Total	<u>8,042,718</u>	<u>537,153</u>	<u>258,890</u>	<u>8,320,981</u>
Reserve for Depreciation Accounts				
Building	410,570	23,812		434,382
Road Equipment	4,678,572	670,064	228,956	5,119,680
Shop Equipment	115,233	13,290		128,523
Fuel Distribution Equipment	61,045	12,269		73,314
Office Equipment	57,479	14,761	29,621	42,619
Engineer's Equipment	<u>89,922</u>	<u>5,818</u>	<u> </u>	<u>95,740</u>
Total	<u>5,412,821</u>	<u>740,014</u>	<u>258,577</u>	<u>5,894,258</u>
Plant and Equipment Equity				
Road Commission Funds	<u>\$2,629,897</u>	<u>\$ 537,153</u>	<u>\$ 740,327</u>	<u>\$2,426,723</u>

The reserve for depreciation for the building includes salt shed depreciation of \$6,768.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--GENERAL LONG-TERM DEBT ACCOUNT GROUP

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

	<u>Balances</u> <u>09/30/02</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/03</u>
Installment Purchase Agreement			
Copier	\$ 3,640	\$ (2,013)	\$ 1,627
Fax	478	(478)	-
Employee Benefits Payable			
Vacation Benefits	151,147	8,853	160,000
Sick Leave Benefits	<u>117,756</u>	<u>5,986</u>	<u>123,742</u>
Total	<u>\$ 273,021</u>	<u>\$ 12,348</u>	<u>\$ 285,369</u>

Loans Payable--Equipment Purchases

The Road Commission entered into a lease installment purchase agreement with Peninsula Office Equipment, Inc., for a Minolta 2030 copy machine. The monthly lease payments for the copy machine are \$170.48, which also includes an annual maintenance fee. The terms and annual principal and interest requirements are as follows:

	<u>Copy Machine</u>
Terms:	4 Years
Purchase Price:	\$ 8,975
Less Trade In:	<u>(1,695)</u>
Net Amount of Lease:	<u>\$ 7,280</u>
Interest Rate:	0%

The following is the payment schedule related to the principal payments:

<u>Year</u>	<u>Copy Machine</u>
2004	<u>\$ 1,627</u>
Total	<u>\$ 1,627</u>

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--GENERAL LONG-TERM DEBT ACCOUNT GROUP (Continued)

Vacation Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. Road Commission policy provides that the vacation benefits earned in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefits

Sick leave is accumulated at the rate of 8 hours for each month of employment in which the employee works at least 12 days and is qualified as a regular employee. All employees who were on the payroll as of September 1, 1982 may accumulate sick leave to a maximum of 520 hours. Employees hired after September 1, 1982 may accumulate sick leave to a maximum of 240 hours.

Accumulated sick leave benefits are paid in accordance with the following provisions.

1. Death--If an employee should die, his or her accumulated sick leave shall be paid to the surviving spouse or to his or her estate if unmarried.
2. Retirement--Upon retirement, employees on the payroll as of September 1, 1982 shall be paid for 100% of their accumulated unused sick leave up to a maximum of 480 hours at the prevailing rate of pay. Employees hired after September 1, 1982 shall be paid for 50% of their accumulated unused sick leave up to a maximum of 120 hours at the prevailing rate of pay.
3. Voluntary Termination--Upon voluntary termination, with 20 years service and proper 2 weeks notice, employees shall be paid for their accumulated unused sick leave under the same provisions as at retirement.

The sick leave benefits liability recorded in the long-term debt account group reflects only those accumulated benefits which would be payable should the employee voluntarily terminate employment with the Road Commission. The Road Commission also has a contingent liability for sick leave benefits which would be payable upon a long-term illness, death or retirement to those employees with less than 20 years of service.

NOTE H--EMPLOYEE PENSION PLANS

The Menominee County Road Commission has two pension plans: the American Express Financial Simplified Employee Pension Plan for its full-time union employees, and the Michigan Employees' Retirement System for its full-time nonunion employees.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEE PENSION PLANS (Continued)

Union Employees' Plan--Profit Sharing Plan

All union employees were covered under a defined contribution pension plan with the American Express Financial Simplified Employee Pension Plan (effective January 1, 2000). The plan administrator is the Road Commission, who has established a trust fund administered by American Express Financial Advisors, Inc. During the fiscal year ended September 30, 2002, the Menominee County Road Commission's required and actual contributions amounted to \$110,655. Pension Fund contributions are based on a fixed weekly rate for each employee covered by the collective bargaining agreement. The Road Commission's weekly contribution for each union employee was \$49. There were 46 union employees covered under this plan during 2002. The most recent period for which the value of the plan assets were available was for the fiscal year ended September 30, 2002.

Nonunion Employees Plan--Description of Plan and Plan Assets

The Menominee County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% time the final average compensation (FAC) for all general employees and 2.5% of the FAC for the manager. 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 the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 14.30% for general employees and 0% for the manager for the calendar year ending December 31, 2001.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H-EMPLOYEE PENSION PLANS (Continued)

Annual Pension Cost

During the calendar year ended December 31, 2001, the Road Commission's contributions totaling \$65,137 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 1999. 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 projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8%, annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases and the assumption that benefits will increase 2.5% per year (annually) after retirement.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	\$ 72,862	100%	\$0
2001	65,137	100%	0
2002	94,937	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 AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/00	\$ 1,576,656	\$ 2,100,581	\$ 523,925	75%	\$ 478,200	110%
12/31/01	1,654,629	2,224,330	569,701	74%	483,132	118%
12/31/02	1,708,537	2,611,542	903,005	65%	551,559	164%

MENOMINEE 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.

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 Menominee County Road Commission became a member of the pool on March 1, 1986.

The Michigan County Road Commission Self-Insurance Pool program 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.

NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2003, the Federal aid received and expended by the Road Commission was \$1,310,726 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 fiscal year ended September 30, 2003, the Road Commission received and expended Federal grants in the amount of \$143,518 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 the fiscal year ended September 30, 2003.

**MENOMINEE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2003**

EXHIBIT F

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$4,267,930	\$1,946,317	\$ 1,253,804	\$7,468,051
Total Expenditures	4,835,654	2,966,929	468,425	8,271,008
Excess of Revenues Over (Under) Expenditures	(567,724)	(1,020,612)	785,379	(802,957)
Fund Balance--October 1, 2002	1,188,625	1,412,973	642,286	3,243,884
Fund Balance--September 30, 2003	\$ 620,901	\$ 392,361	\$ 1,427,665	\$2,440,927

**MENOMINEE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended September 30, 2003**

EXHIBIT G

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$ 4,300	\$ 4,300
Federal Grants				
Contracted				
Critical Bridges	\$ 326,646	\$ 85,360		412,006
Surface Transportation Program	471,605		12,060	483,665
Economic Development D Funds	157,683			157,683
High Priority	257,372			257,372
Negotiated				
Economic Development D Funds	103,518			103,518
Bureau of Indian Affairs	40,000			40,000
State Grants				
Michigan Transportation Fund				
Engineering	6,000	4,000		10,000
Allocation	2,080,446	1,346,800		3,427,246
Urban	75,424	6,155		81,579
Snow Removal	2,491			2,491
Critical Bridge Funds	109,503	16,005		125,508
Economic Development Fund				
Rural Primary (D)	255,655			255,655
Forest Road (E)	161,019			161,019
Federal Exchange			577,881	577,881
Contributions From Local Units				
Townships	206,425	359,561	36,644	602,630
Charges for Services				
State Trunkline Maintenance			513,742	513,742
State Trunkline Non-Maintenance			49,628	49,628
Private Driveway Fees			1,687	1,687
Salvage Sales			1,221	1,221
Interest and Rents				
Interest Earned	14,143	16,436	7,644	38,223
Other Revenue				
Contributions From Other Sources		112,000	2,517	114,517
Gain on Equipment Disposal			46,480	46,480
Total Revenues	\$ 4,267,930	\$ 1,946,317	\$ 1,253,804	\$ 7,468,051

**MENOMINEE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2003**

EXHIBIT H

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 1,887,734			\$ 1,887,734
Maintenance	1,508,859			1,508,859
Local Road				
Heavy Maintenance		\$ 1,539,842		1,539,842
Maintenance		1,013,988		1,013,988
Primary Road Structures				
Heavy Maintenance	1,113,819			1,113,819
Maintenance	9,415			9,415
Local Road Structures				
Heavy Maintenance		146,942		146,942
Maintenance		15,960		15,960
State Trunkline				
Maintenance			\$ 513,742	513,742
Non-Maintenance			15,947	15,947
Driveway Plowing			1,687	1,687
Maintenance for Other Units			80,366	80,366
Equipment Expense--Net (Per Exhibit D)	93,681	116,671	50,599	260,951
Administrative Expense--Net (Per Exhibit D)	222,146	133,526		355,672
Capital Outlay--Net (Per Exhibit D)	-		(196,407)	(196,407)
Debt Service				
Principal	-		2,491	2,491
Interest	-		-	-
Total Expenditures	\$ 4,835,654	\$ 2,966,929	\$ 468,425	\$ 8,271,008



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JAY B. RISING
STATE TREASURER

February 27, 2004

Board of County Road Commissioners
Menominee County
P.O. Box 527
Stephenson, Michigan 49887

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 Menominee County Road Commission, a component unit of Menominee County, as of and for the year ended September 30, 2003 and have issued our report thereon dated February 27, 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 Menominee 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.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Menominee 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 management, Federal and State 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 'CJ Vaughn', with a long horizontal flourish extending to the right.

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