

**Sanilac County Road Commission
Sandusky, Michigan**

FINANCIAL STATEMENTS

December 31, 2003

Sanilac County Road Commission

TABLE OF CONTENTS

December 31, 2003

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Fund Balance Sheet	11
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	14
Statement of Net Assets - Fiduciary Fund	15
Statement of Changes in Plan Net Assets - Fiduciary Fund	16
Notes to Financial Statements	17-27
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Budgetary Comparison Schedule - Statement of Revenues - Budget and Actual	28
Budgetary Comparison Schedule - Schedule of Expenditures - Budget and Actual	29
OTHER SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Statement of Changes in Fund Balance	30
Analysis of Changes in Fund Balance	31
Analysis of Revenues	32
Analysis of Expenditures	33
Schedule of Changes in Capital Assets	34
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	35-36

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the accompanying component unit financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission, a component unit of Sanilac County, Michigan as of and for the year ended December 31, 2003, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit. The financial statements of the Sanilac County Road Commission for the year ended December 31, 2002 were audited by other auditors whose report dated March 6, 2003, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission as of December 31, 2003, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Commission has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2003, along with all related statements and interpretations.

In accordance with Government Auditing Standards, we have also issued a report dated February 26, 2004, on our consideration of the Sanilac County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 25 through 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 26, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Sanilac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2003. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements. 2003 represents the first year the Commission implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous fiscal year. Future reports will include financial comparisons to the prior year as required by GASB.

Overview of the Financial Statements

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

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

Reporting the Sanilac County Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are account for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

Reporting the Sanilac County Road Commission as a Whole (Continued)

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Sanilac County Road Commission’s activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 28 through 29. The other supplementary information begins on page 30 and provides detailed information about the major fund.

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

Financial Analysis of the Road Commission as a Whole

The Road Commission’s net assets increased from \$4,104,002 to \$6,049,198 for the year ended December 31, 2003. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets increased by \$1,945,196 during 2003. The primary reason for the increase was the recognition of infrastructure assets and the Road Commission’s conscious effort to cut expenses and reduce our long term liability.

Net assets for the year ended December 31, 2003 follows:

	<u>2003</u>
Current and Other Assets	\$ 2,553,434
Capital Assets	<u>6,263,963</u>
Total Assets	8,817,397
Current Liabilities	1,093,466
Other Liabilities	<u>1,674,733</u>
Total Liabilities	2,768,199

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the Road Commission as a Whole (Continued)

Net Assets (Continued)

	<u>2003</u>
Net Assets	
Invested in Capital Assets (Net of Related Debt)	\$ 5,252,633
Restricted for County Roads	<u>796,565</u>
Total Net Assets	<u>\$ 6,049,198</u>

Changes in Net Assets

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the tables presented throughout this discussion and analysis only reflect current year data. In future years, when prior year information is available, comparative analysis of Road Commission data will be presented.

	<u>Governmental Activities</u>
Program Revenues	
Charges for services	\$ 1,492,358
Operating grants and contributions	6,889,871
Capital grants and contributions	2,160,318
General Revenues	
Property taxes	1,629,192
Interest	27,134
Miscellaneous	2,570
Loss on equipment disposal	<u>(139,170)</u>
Total Revenues	\$12,062,273
Expenses	
Primary roads	3,333,817
Local roads	4,737,183
State trunkline	1,456,418
Equipment - net	<u>(42,051)</u>
Administrative - net	429,725
Compensated absences	825
Infrastructure depreciation	142,813
Interest expense	<u>58,347</u>
Total Expenses	<u>10,117,077</u>
Increase in Net Assets	<u>\$ 1,945,196</u>

The Sanilac County Road Commission's Fund Level Information

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2003, the fund balance of the general operating fund increased \$697,342 as compared to a decrease of \$447,665 in the fund balance for the year ended December 31, 2002. Total operating revenues were \$12,062,273, an increase of \$1,408,137 as compared to last year. This change in revenues resulted primarily from an increase in federal aid of \$1,375,118. There was also a decrease in interest earned due to the overall economy in the amount of \$25,115. Total expenditures were \$11,364,931, an increase of \$263,130 as compared to last year. This change in expenditures was due primarily to an increase in primary road heavy maintenance projects of \$2,021,833. There was also a decrease of \$1,821,703 in capital outlay from the prior year.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the Road Commission as a Whole (Continued)

A summary of changes in the Operating Fund for the year ended December 31, 2003 was as follows:

	12/31/03 <u>Operating Fund</u>
Revenues	
Taxes	\$ 1,629,192
Licenses and permits	28,945
Federal grants	1,727,334
State grants	5,515,140
Contributions from local units	1,807,715
Charges for services	1,463,413
Interest and rents	27,134
Other	2,570
Loss on Equipment Disposals	<u>(139,170)</u>
Total Revenues	12,062,273
Expenses	
Primary road	5,494,134
Local road	4,737,362
State trunkline	1,456,418
Equipment	<u>(42,051)</u>
Administrative	429,725
Capital outlay	<u>(959,975)</u>
Debt service	<u>249,318</u>
Total Expenses	11,364,931
Excess of Revenues over Expenditures	697,342
Fund Balance - beginning	1,133,364
Prior period adjustments	<u>411,999</u>
Fund Balance - ending	<u>\$ 1,830,706</u>

Budgetary Highlights

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

The final amended revenue budget for 2003 was more than the original budget primarily due to the Road Commission receiving additional monies from the State for non-maintenance work and an increase in township contributions. The actual revenue recognized during 2003 was less than the final amended budget by \$163,550.

The final amended expenditure budget for 2003 was \$1,361,958 more than the original budget primarily due to the Road Commission doing additional primary road work, the State doing additional non-maintenance work and the townships contracting for additional work on local roads. The actual expenditures recognized during 2003 were less than the final amended budget by \$850,877. However, there were unfavorable variances in certain expenditure line items.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2003, the Road Commission had invested \$6,263,963 in net capital assets. This amount represents a net increase (including additions and deductions) of \$1,061,647, or 21%, as follows:

	<u>2003</u>
Capital Assets Not Being Depreciated	
Land and improvements	\$ 66,903
Capital Assets Being Depreciated	
Buildings	429,111
Equipment	7,346,773
Depletable assets	55,450
Infrastructure	<u>4,346,914</u>
Subtotal	<u>12,178,248</u>
Total Capital Assets	12,245,151
Total Accumulated Depreciation	<u>(5,981,188)</u>
Total Net Capital Assets	<u>\$ 6,263,963</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$4,346,914. The infrastructure is financed through federal, state and local contributions and has not been included in the audited financial statements in prior years.

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

Buildings	\$ 2,188
Equipment	
Roads	47,637
Shop	4,930
Office	41,218
Infrastructure	
Roads	4,190,572
Bridges	<u>156,342</u>
	<u>\$ 4,442,887</u>

In January 2003, the Road Commission refinanced a tool carrier for \$48,750 at Eastern Michigan Bank for 36 months at 6.25%.

During 2003, the Road Commission traded in and/or disposed of equipment (road, shop, office and engineer) with a purchase amount of \$344,330, related accumulated depreciation of \$206,930 and net book value of \$137,400.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital Asset and Debt Administration (Continued)

Debt

As of December 31, 2003, the Road Commission had \$2,041,800 in long-term debt outstanding versus \$2,468,209 last year, a decrease of 18% as shown below:

	<u>12/31/02 Balance</u>	<u>2003 Payments</u>	<u>12/31/03 Balance</u>	<u>% of Change</u>
Lease Purchase Agreements	<u>\$ 1,438,564</u>	<u>\$ 427,234</u>	<u>\$ 1,011,330</u>	30

Other obligations include accrued vacation pay and sick leave. As of December 31, 2003, the Road Commission had a \$1,030,470 outstanding debt related to accumulated unused vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2004 budget. One of the factors is the economy. The Road Commission derives approximately 46% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$5,535,100, 2% more Michigan Transportation Fund revenues in 2004. The Road Commission received approximately 33% of its revenues from township contributions during 2003. Deposits made for critical bridge projects were included in this amount. The amount of local contributions fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2004, we expect to receive at least \$1,762,500 in federal and state aid for road projects, some of which was deferred from 2003.

The above items were considered when adopting the budget for 2004. Amounts available for appropriation in the 2004 budget are \$12,716,360, an increase of \$491,552 over the 2003 final amended revenue budget of \$12,224,808.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Sanilac County Road Commission's administrative offices at 35 N. Flynn Street, Sandusky, Michigan 48471.

BASIC FINANCIAL STATEMENTS

Sanilac County Road Commission

STATEMENT OF NET ASSETS

December 31, 2003

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,050,012
Accounts receivable	4,347
Due from other governmental units	
State	977,078
Local	203,061
Prepaid expenses	79,872
Inventory	<u>239,064</u>
Total current assets	2,553,434
Noncurrent assets	
Capital assets, net	<u>6,263,963</u>
TOTAL ASSETS	8,817,397
LIABILITIES	
Current liabilities	
Accounts payable	146,316
Accrued liabilities	30,361
Accrued interest payable	3,672
Due to other governmental units	
State	11,774
Performance bond payable	5,000
Deferred revenue	158,510
Current portion of compensated absences	308,098
Current portion of long-term debt	<u>429,735</u>
Total current liabilities	1,093,466
Noncurrent liabilities	
Advances	370,766
Noncurrent portion of compensated absences	722,372
Noncurrent portion of long-term debt	<u>581,595</u>
Total noncurrent liabilities	<u>1,674,733</u>
TOTAL LIABILITIES	<u>2,768,199</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,252,633
Restricted for County Roads	<u>796,565</u>
TOTAL NET ASSETS	<u><u>\$ 6,049,198</u></u>

See accompanying notes to financial statements

Sanilac County Road Commission

STATEMENT OF ACTIVITIES

December 31, 2003

	<u>Governmental Activities</u>
Program Expenses	
Primary Road	\$ 3,333,817
Local Road	4,737,183
State Trunkline	1,456,418
Equipment - net	(42,051)
Administrative - net	429,725
Compensated absences	825
Infrastructure depreciation	142,813
Interest expense	<u>58,347</u>
TOTAL PROGRAM EXPENSES	10,117,077
Program Revenues	
Charges for services	1,492,358
Operating grants and contributions	6,889,871
Capital grants and contributions	<u>2,160,318</u>
TOTAL PROGRAM REVENUES	<u>10,542,547</u>
NET PROGRAM REVENUES	425,470
General Revenues	
Property taxes	1,629,192
Interest	27,134
Miscellaneous	2,570
Loss on equipment disposal	<u>(139,170)</u>
TOTAL GENERAL REVENUES	<u>1,519,726</u>
CHANGE IN NET ASSETS	1,945,196
Net assets, beginning of the year	<u>4,104,002</u>
Net assets, end of the year	<u><u>\$ 6,049,198</u></u>

See accompanying notes to financial statements

Sanilac County Road Commission

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2003

	Governmental Fund Type
	<u>General</u>
	<u>Operating Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,050,012
Accounts receivable	4,347
Due from other governmental units	
State of Michigan	977,078
Local	203,061
Prepaid expenditures	79,872
Inventory	<u>239,064</u>
TOTAL ASSETS	<u><u>\$ 2,553,434</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 146,316
Accrued liabilities	30,361
Due to other governmental unit	
State of Michigan	11,774
Performance bond payable	5,000
Deferred revenue	158,510
Advances	
State of Michigan	267,693
Local	<u>103,073</u>
TOTAL LIABILITIES	722,727
FUND EQUITY	
Fund balance	
Reserved for primary road	1,074,970
Reserved for local road	302,612
Unreserved - undesignated	<u>453,125</u>
TOTAL FUND EQUITY	<u><u>1,830,707</u></u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 2,553,434</u></u>

See accompanying notes to financial statements

Sanilac County Road Commission

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

December 31, 2003

Total fund balance - governmental fund \$ 1,830,707

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 12,245,151	
Accumulated depreciation is	<u>(5,981,188)</u>	
Capital assets, net		6,263,963

therefore are not reported in the Governmental Fund Balance Sheet.
Long-term liabilities at year-end consist of:

Lease payable	(1,011,330)	
Accrued interest payable	(3,672)	
Compensated absences	<u>(1,030,470)</u>	
		<u>(2,045,472)</u>

Net assets of governmental activities \$ 6,049,198

See accompanying notes to financial statements.

Sanilac County Road Commission

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

Year Ended December 31, 2003

	Governmental Fund Type
	<u>General</u>
	<u>Operating Fund</u>
REVENUES	
Taxes	\$ 1,629,192
Licenses and permits	28,945
Intergovernmental	9,050,189
Charges for services	1,463,413
Interest and rents	27,134
Other	<u>(136,600)</u>
TOTAL REVENUES	12,062,273
EXPENDITURES	
Current	
Primary Road	5,494,134
Local Road	4,737,362
State Trunkline	1,456,418
Equipment - net	(42,051)
Administrative - net	429,725
Capital outlay	(959,975)
Debt Service	<u>249,318</u>
TOTAL EXPENDITURES	<u>11,364,931</u>
EXCESS OF REVENUES OVER EXPENDITURES	697,342
Fund balance, beginning of year	721,366
Prior period adjustments	<u>411,999</u>
Fund balance, end of year	<u><u>\$ 1,830,707</u></u>

See accompanying notes to financial statements.

Sanilac County Road Commission

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

Year Ended December 31, 2003

Net change in fund balance - governmental fund **\$ 697,342**

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

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 2,256,290	
Depreciation expense	(914,430)	
Infrastructure depreciation	<u>(142,813)</u>	

Excess of capital outlay over depreciation expense		1,199,047
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Reduction of capital assets as a result of early lease termination.		(138,800)
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Disposal of capital assets with residual net book value.		(2,539)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.
In the current year, these amounts consist of:

Capital lease payments		188,885
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

Decrease in accrued interest payable	2,086	
(Increase) in accrued compensated absences	<u>(825)</u>	

		<u>1,261</u>
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Change in net assets of governmental activities		<u><u>\$ 1,945,196</u></u>
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See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2003

	<u>Pension Fund</u>
ASSETS	
Cash equivalents	\$ 11,436
Investments	<u>3,556,754</u>
 TOTAL ASSETS	 <u>\$ 3,568,190</u>
 NET ASSETS	
Held in trust for pension benefits	<u>\$ 3,568,190</u>

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2003

	<u>Pension Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 217,046
Investment earnings	
Net increase in fair value of investments	765,301
Dividends	<u>44,864</u>
Total investment earnings	<u>810,165</u>
TOTAL ADDITIONS	1,027,211
DEDUCTIONS	
Benefits	<u>(98,190)</u>
CHANGE IN NET ASSETS	929,021
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>2,639,169</u>
End of year	<u><u>\$ 3,568,190</u></u>

See accompanying notes to financial statements.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

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

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to twenty-six (26) Townships in Sanilac County and maintains over 1,800 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Sanilac County Road Commission. The Commission is considered a component unit of Sanilac County, Michigan and is discretely presented in Sanilac County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Sandusky, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

3. Measurement Focus

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

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

4. Basis of Accounting

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

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

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

4. Budgets and Budgetary Accounting

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

5. Cash and Cash Equivalents

Cash and cash equivalents consists of the Commission's checking, money market account, and imprest cash.

6. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

7. Capital Assets

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

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

7. Capital Assets - continued

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Sanilac County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007, as permitted by GASB Statement No. 34.

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

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

8. Long-Term Obligations

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

9. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

10. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

11. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

13. Accounting Change

As of January 1, 2003, the Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Commission's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$3,015,719, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Commission's applicable capital assets.
- Long-term obligations reported on the statement of net assets include \$2,468,209, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and various other disclosures.

NOTE B: CASH AND CASH EQUIVALENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Sanilac County Treasurer's Office, and in order to make disbursements, the Sanilac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Commission's bank deposits at December 31, 2003, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ <u>12,749</u>	\$ <u>462,799</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2003, the Commission's accounts were insured by the FDIC for \$200,000 and the amount of \$262,799 was uninsured and uncollateralized.

The cash caption on the balance sheet includes \$2,550 in imprest cash.

Investments

As of December 31, 2003, the carrying amount and market values for the investment funds are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Uncategorized pooled investment funds:		
Bank One Commercial Checking Sweep	\$ 1,034,713	\$ 1,034,713
American Funds Retirement	<u>3,568,190</u>	<u>3,543,260</u>
	<u>\$ 4,602,903</u>	<u>\$ 4,577,973</u>

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2003 was as follows:

	<u>Balance</u> <u>Jan. 1, 2003</u>	<u>Additions and</u> <u>Reclassifications</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2003</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	<u>2,186,597</u>	<u>-</u>	<u>2,186,597</u>	<u>-0-</u>
Subtotal	2,253,500	-0-	2,186,597	66,903
Capital Assets Being Depreciated/Depleted				
Buildings	426,923	2,188	-	429,111
Equipment -				
Road	7,377,705	47,637	334,319	7,091,023
Shop	104,569	4,930	-	109,499
Office	39,907	41,218	10,011	71,114
Engineer	75,137	-	-	75,137
Infrastructure - roads	-	4,190,572	-	4,190,572
Infrastructure - bridges	-	156,342	-	156,342
Depletable assets	<u>55,450</u>	<u>-</u>	<u>-</u>	<u>55,450</u>
Subtotal	8,079,691	4,442,887	344,330	12,178,248
Less Accumulated Depreciation/Depletion				
Buildings	336,597	11,244	-	374,841
Equipment -				
Road	4,589,802	888,545	199,458	5,278,889
Shop	55,233	7,608	-	62,841
Office	28,840	2,877	7,472	24,245
Engineer	64,953	4,156	-	69,109
Infrastructure - roads	-	139,686	-	139,686
Infrastructure - bridges	-	3,127	-	3,127
Depletion	<u>55,450</u>	<u>-</u>	<u>-</u>	<u>55,450</u>
Subtotal	<u>5,130,875</u>	<u>1,057,243</u>	<u>206,930</u>	<u>5,981,188</u>
Net Capital Assets Being Depreciated	<u>2,948,816</u>	<u>3,385,644</u>	<u>137,400</u>	<u>6,197,060</u>
Total Net Capital Assets	<u>\$ 5,202,316</u>	<u>\$ 3,385,644</u>	<u>\$ 2,323,997</u>	<u>\$ 6,263,963</u>

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 870,674
Net Administrative Expense	43,756
Infrastructure	<u>142,813</u>
	<u>\$ 1,057,243</u>

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2003:

	Balance Jan. 1, 2003	Additions	Deletions	Balance Dec. 31, 2003	Amounts due within one year
Governmental Activities					
Lease purchase agreements	\$ 1,438,564	\$ -	\$ 427,234	\$ 1,011,330	\$ 429,735
Vacation and sick leave	<u>1,029,645</u>	<u>825</u>	<u>-</u>	<u>1,030,470</u>	<u>308,098</u>
	<u>\$ 2,468,209</u>	<u>\$ 825</u>	<u>\$ 427,234</u>	<u>\$ 2,041,800</u>	<u>\$ 737,833</u>

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

Lease purchase agreements payable at December 31, 2003, are as follows:

The Commission purchased a Komatsu Hoe under a lease purchase agreement at a cost of \$131,500. The lease purchase agreement requires sixty consecutive monthly payments of \$1,539, which includes lease finance costs at the rate of 4.75% commencing on June 1, 2001. At the end of the lease term, the Road Commission may purchase the Hoe for \$1.00.

\$ 42,272

The Commission refinanced one Caterpillar Tool Carrier under a purchase agreement at a remaining cost of \$48,750. The purchase agreement requires thirty-six consecutive monthly payments of \$1,488.60, which includes finance costs at the rate of 6.25% commencing on January 5, 2003.

33,473

The Commission purchased four Graders under lease purchase agreements at a total cost of \$702,650. The lease purchase agreement requires thirty-six consecutive monthly payments of \$8,750, which includes lease finance costs at rates of 3.5% to 4.3% commencing in 2002. At the end of the lease terms, the Road Commission may purchase the Graders for \$413,708.

601,889

The Commission purchased two Caterpillar Motor Graders, a Caterpillar Tool Carrier, and a Caterpillar Excavator under lease purchase agreements at a cost of \$530,187. The lease purchase agreements require thirty-six consecutive monthly payments of \$7,500, which includes lease finance costs at rates of 5.45% to 6.05% commencing in 2000. At the end of the term, the Road Commission may purchase the equipment for \$335,688.

78,410

The Commission purchased two Caterpillar Motor Graders under a lease purchase agreement at a cost of \$346,000. The lease purchase agreement requires thirty-six consecutive monthly payments of \$4,350, which includes lease finance costs at the rate of 5.05% commencing on December 10, 2001. At the end of the lease term, the Road Commission may purchase the Graders for \$233,058.

255,286

\$ 1,011,330

Sanilac County Road Commission
 NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE D: LONG-TERM DEBT - CONTINUED

Accumulated Vacation and Sick

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

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$308,098 and a long term liability of \$722,372 at December 31, 2003.

The annual requirements to pay general long-term debt principal and interest outstanding for the following installment contracts at December 31, 2003, is as follows:

<u>Year Ending December 31,</u>	<u>Lease purchase agreements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 429,735	\$ 36,328	\$ 466,063
2005	392,267	17,251	409,518
2006	189,328	426	189,754
	\$ 1,011,330	\$ 54,005	\$ 1,065,335

NOTE E: FEDERAL FINANCIAL ASSISTANCE

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

During the period ended December 31, 2003, the Road Commission of Sanilac County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Road Commission has a master single employer defined contribution plan called The Sanilac County Money Purchase Plan. This defined contribution plan is administered by Pension Plan Service, Inc. and is available to all employees of the Road Commission. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who are at least 21 years old and have completed six months of service are eligible to participate.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Plan provisions require that the Road Commission contribute 8 percent of each active participant's compensation and do not allow for participant contributions. The Road Commission's contributions for each employee (and earnings allocated to the employee's account) are vested at the rate of 20 percent upon completing 2 years of service, plus an additional 20 percent for each year of the next 4 years of service. Road Commission contributions for and interest forfeited by employees who leave employment before full vesting are used to reduce the Road Commission's current period contribution requirement. The plan uses the accrual basis of accounting with investments stated at market.

The Road Commission's total payroll for the year ended December 31, 2003, was \$2,745,995. The Road Commission's contributions were calculated using the covered compensation amount of \$2,713,062. The Road Commission made the required contribution amounting to \$217,046.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the Commission. Due to the inconclusive nature of many of the actions, it is not possible for Commission's Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions for which a reasonable estimate can be determined of the potential liability, if any, are considered by the Commission and legal counsel to be immaterial.

NOTE H: RISK MANAGEMENT

Sanilac County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

Sanilac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. The Road Commission's employee medical benefits insurance is purchased through Blue Cross and Blue Shield.

At December 31, 2003, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Sanilac County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Sanilac County Road Commission has been adopted the activity level for the General Operating Fund.

	<u>Amended Amount Appropriated</u>	<u>Actual Amount Expended</u>	<u>Variance</u>
General Operating Fund			
Primary Road	\$ 4,904,253	\$ 5,494,134	\$ 589,881
Local Road	4,033,515	4,737,362	703,847
Debt Service	242,500	249,318	6,818

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2003:

General Operating Fund	
Reserved for	
Primary Road	\$ 1,074,970
Local Road	<u>302,612</u>
	<u>\$ 1,377,582</u>

NOTE K: PRIOR PERIOD ADJUSTMENTS

In the past, the February distribution, which was for the previous December funds, for the December Michigan Transportation Fund (MTF) collections were recorded as revenue in the period received. However, as recommended by the Michigan Department of Treasury Numbered Letter 2002-5 and in accordance with the definition of the modified accrual basis of accounting, the Road Commission has recognized the February 2004 distribution of the December 2003 revenue in the fiscal year ending December 31, 2003. A restatement of fund balance was necessary to remove the February 2003 MTF distribution of the December 2002 revenue that was recognized during 2003 and record it to 2002. Listed below is the affect on the fund balances at December 31, 2002, i.e., the 2003 beginning fund balance:

	<u>Fund Balance Dec. 31, 2002</u>	<u>Feb. 2003 MTF</u>	<u>Restated Fund Balance Dec. 31, 2002</u>
Primary Road	\$ 354,868	\$ 202,145	\$ 557,013
Local Road	<u>139,923</u>	<u>209,854</u>	<u>349,777</u>
Total	<u>\$ 494,791</u>	<u>\$ 411,999</u>	<u>\$ 906,790</u>

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE L: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Sanilac County Road Commission provides hospitalization medical coverage on a complimentary basis for any employee who retires after January 1, 1990, at age 55 with at least thirty years of service. At age 65, the employee receives supplemental coverage for himself or herself only.

For any employee who retires after age 62 and after January 1, 1990, Sanilac County Road Commission provides the retiree and his or her spouse with hospitalization medical coverage, provided however, that if the retiree's spouse, by virtue of his or her employment or otherwise, has the retiree as a covered beneficiary on his or her hospitalization medical coverage, the Road Commission will be under no obligation to provide coverage. At age 65 the retiree and or spouse coverage will be supplemental only.

The benefits are provided based on requirements of union contracts and are financed on a pay-as-you-go basis. For the year ended December 31, 2003, Sanilac County Road Commission expended \$188,655 for 31 participants currently eligible to receive benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2003

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Property taxes	\$ 1,558,750	\$ 1,629,926	\$ 1,629,192	\$ (734)
Licenses and permits				
Permits	30,000	30,000	28,945	(1,055)
Intergovernmental				
Federal sources				
Critical Bridge	525,000	132,265	125,074	(7,191)
Economic development "D" funds	-	195,680	568,477	372,797
Surface transportation program	1,350,000	1,385,000	1,033,783	(351,217)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	5,287,600	5,387,600	2,673,895	(2,713,705)
Local road	-	-	2,772,279	2,772,279
Critical Bridge	-	24,800	23,451	(1,349)
Economic development funds				
Rural primary "D" funds	-	34,742	35,515	773
Local sources				
Township contributions	495,000	1,788,045	1,807,715	19,670
Total intergovernmental	7,667,600	8,958,132	9,050,189	92,057
Charges for services				
State Trunkline maintenance				
Direct charges	1,132,500	1,572,500	860,641	(711,859)
Indirect charges	-	-	595,442	595,442
Salvage sales	-	7,250	7,330	80
Total charges for services	1,132,500	1,579,750	1,463,413	(116,337)
Interest	35,000	26,500	27,134	634
Other				
Other	5,000	500	2,570	2,070
Loss on equipment disposal	-	-	(139,170)	(139,170)
Total other	5,000	500	(136,600)	(137,100)
TOTAL REVENUES	10,428,850	12,224,808	12,062,273	(163,550)
OTHER FINANCING SOURCES				
Lease proceeds	425,000	-	-	-0-
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 10,853,850</u>	<u>\$ 12,224,808</u>	<u>\$ 12,062,273</u>	<u>\$ (163,550)</u>

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2003

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary Road				
Maintenance	\$ 842,500	\$ 922,500	\$ 1,202,385	\$ (279,885)
Heavy maintenance	2,665,990	3,580,383	3,842,160	(261,777)
Structure maintenance	663,000	401,370	449,589	(48,219)
Total Primary Road	4,171,490	4,904,253	5,494,134	(589,881)
Local Road				
Maintenance	2,386,700	3,337,515	3,953,183	(615,668)
Heavy maintenance	700,000	525,000	524,027	973
Structure maintenance	276,000	171,000	260,152	(89,152)
Total Local Road	3,362,700	4,033,515	4,737,362	(703,847)
State Trunkline				
Maintenance	1,132,500	1,522,500	1,456,418	66,082
Equipment				
Direct	1,250,000	1,125,000	1,576,725	(451,725)
Indirect	500,000	475,000	566,389	(91,389)
Operating	275,000	252,500	283,836	(31,336)
Less: Equipment rental	-	-	(2,469,001)	2,469,001
Total Equipment	2,025,000	1,852,500	(42,051)	1,894,551
Administrative				
Administration	558,000	557,840	566,715	(8,875)
Less:				
Handling charges	(5,000)	(11,500)	(11,878)	378
Overhead state	(90,000)	(90,000)	(124,162)	34,162
Purchase discount	-	(960)	(950)	(10)
Total Administrative	463,000	455,380	429,725	25,655
Capital Outlay				
Capital outlay	157,160	12,160	95,794	(83,634)
Less:				
Depreciation and depletion	(760,000)	(787,000)	(914,430)	127,430
Trade in allowance	(20,000)	(20,000)	(141,339)	121,339
Total Capital Outlay	(622,840)	(794,840)	(959,975)	165,135
Debt Service				
Principal payments	250,000	185,000	188,885	(3,885)
Interest payments	72,000	57,500	60,433	(2,933)
Total Debt Service	322,000	242,500	249,318	(6,818)
TOTAL EXPENDITURES	<u>\$ 10,853,850</u>	<u>\$ 12,215,808</u>	<u>\$ 11,364,931</u>	<u>\$ 850,877</u>

OTHER SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2003

TOTAL REVENUES	\$ 12,062,273
TOTAL EXPENDITURES	<u>11,364,931</u>
EXCESS OF REVENUE OVER EXPENDITURES	697,342
Fund balance, beginning of year	721,366
Prior period adjustments	<u>411,999</u>
Fund balance, end of year	<u><u>\$ 1,830,707</u></u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2003

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
TOTAL REVENUES	\$ 7,506,510	\$ 4,583,396	\$ (27,633)	\$ 12,062,273
TOTAL EXPENDITURES	<u>6,988,553</u>	<u>4,630,561</u>	<u>(254,183)</u>	<u>11,364,931</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	517,957	(47,165)	226,550	697,342
Fund balance, beginning of year	354,868	139,923	226,575	721,366
Prior period adjustments	<u>202,145</u>	<u>209,854</u>	<u>-</u>	<u>411,999</u>
Fund balance, end of year	<u><u>\$ 1,074,970</u></u>	<u><u>\$ 302,612</u></u>	<u><u>\$ 453,125</u></u>	<u><u>\$ 1,830,707</u></u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Taxes	\$ 1,629,192	\$ -	\$ -	\$ 1,629,192
Licenses and permits				
Permits	-	25,920	3,025	28,945
Intergovernmental				
Federal sources	1,727,334	-	-	1,727,334
State sources	2,737,762	2,777,378	-	5,515,140
Local sources	-	1,807,715	-	1,807,715
Total intergovernmental	4,465,096	4,585,093	-0-	9,050,189
Charges for services				
State Trunkline				
Direct charges	1,456,083	-	-	1,456,083
Salvage sales	-	5,720	1,610	7,330
Total charges for services	1,456,083	5,720	1,610	1,463,413
Interest	18,391	5,631	3,112	27,134
Other				
Other	375	-	2,195	2,570
Loss on sale of equipment	(62,627)	(38,968)	(37,575)	(139,170)
Total other	(62,252)	(38,968)	(35,380)	(136,600)
TOTAL REVENUES	<u>\$ 7,506,510</u>	<u>\$ 4,583,396</u>	<u>\$ (27,633)</u>	<u>\$ 12,062,273</u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Heavy Maintenance	\$ 3,842,160	\$ 524,027	\$ -	\$ 4,366,187
Structure Maintenance	449,589	260,152	-	709,741
Maintenance	1,202,385	3,953,183	-	5,155,568
State Trunkline	1,456,418	-	-	1,456,418
Equipment Expense - Net	(8,015)	(28,006)	(6,030)	(42,051)
Administrative Expense - Net	230,755	198,970	-	429,725
Capital Outlay - Net	(434,057)	(277,765)	(248,153)	(959,975)
Debt Service	249,318	-	-	249,318
	<u>6,988,553</u>	<u>4,630,561</u>	<u>(254,183)</u>	<u>11,364,931</u>
TOTAL EXPENDITURES	<u>\$ 6,988,553</u>	<u>\$ 4,630,561</u>	<u>\$ (254,183)</u>	<u>\$ 11,364,931</u>

Sanilac County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2003

	Balance Jan. 1, 2003	Additions and Reclassifications	Deletions	Balance Dec. 31, 2003
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	2,186,597	-	2,186,597	-0-
	2,253,500	-0-	2,186,597	66,903
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	426,923	2,188	-	429,111
Equipment				
Road	7,377,705	47,637	334,319	7,091,023
Shop	104,569	4,930	-	109,499
Office	39,907	41,218	10,011	71,114
Engineer	75,137	-	-	75,137
Infrastructure - Roads	-	4,190,572	-	4,190,572
Infrastructure - Bridges	-	156,342	-	156,342
Depletable assets	55,450	-	-	55,450
Subtotal	8,079,691	4,442,887	344,330	12,178,248
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	336,597	11,244	-	347,841
Equipment				
Road	4,589,802	888,545	199,458	5,278,889
Shop	55,233	7,608	-	62,841
Office	28,840	2,877	7,472	24,245
Engineer	64,953	4,156	-	69,109
Infrastructure - Roads	-	139,686	-	139,686
Infrastructure - Bridges	-	3,127	-	3,127
Depletion	55,450	-	-	55,450
Subtotal	5,130,875	1,057,243	206,930	5,981,188
Net Capital Assets				
Being Depreciated	2,948,816	3,385,644	137,400	6,197,060
Total Net Capital Assets	<u>\$ 5,202,316</u>	<u>\$ 3,385,644</u>	<u>\$ 2,323,997</u>	<u>\$ 6,263,963</u>

Principals

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Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

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ABRAHAM & GAFFNEY, P.C.
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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the component unit financial statements of the Sanilac County Road Commission as of and for the year ended December 31, 2003, and have issued our report thereon dated February 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Sanilac 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 the Sanilac 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 of 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 for the information and use of management and the Board of County Road Commissioner's and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 26, 2004

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MANAGEMENT LETTER

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

Dear Commissioners:

As you know, we have recently completed our audit of the records of the Sanilac County Road Commission for the year ended December 31, 2003. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Employees of the Commission who handle cash should be bonded.

During discussions with management, we noted that employees responsible for collecting and depositing cash for the Commission are not currently covered by bond insurance.

In order to better protect the Commission from potential losses, we suggest that any employee handling cash for the Commission be adequately bonded.

2. The Commission should implement various written procedures and policies.

During discussions with management, we noted that the Commission has not formally implemented written procedures and policies for several areas of operation. Specifically, we suggest the Commission formally develop and implement written procedures and policies for the following:

- a. Personnel policies - We suggest the Commission consider mandatory vacations and the rotation of duties for employees responsible for accounting functions. We also suggest that employees are periodically evaluations. The Commission should also adopt a conflict of interest policy either as part of the personnel policies or as a separate policy.

We believe by documenting specific personnel policies, employees of the Commission will have a clearer understanding of the Board's expectations. We also believe that such documentation will provide greater internal control for certain areas.

- b. Capital assets - We suggest the Board of Commissioners adopt a policy for disposal of capital assets. The policy should specify criteria for disposing of capital assets. We also suggest that the Board of Commissioners adopt a policy prohibiting the personal use of government assets. We believe that such a policy would provide a greater internal control over the use of capital assets.

3. The Commission should evaluate the disbursements process and consideration additional segregation of duties.

During discussions with management, it was noted that one individual controls all aspect of the disbursement process.

We suggest that management evaluate this process and controls be put in place to segregate some of the duties related to the cash disbursement transaction cycle. By appropriately segregating duties related to the disbursement process, internal control will be strengthened and improved.

4. Budgets should be monitored and amended prior to expenditure of funds when necessary.

As noted in the annual financial statements, some of the budgeted activities of the Road Commission exceeded the amounts appropriated. Also the 2002 budget was amended after year-end.

The Michigan Public Act 621 of 1978, as amended, provides that the Road Commission adopt formal budgets for applicable Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

We suggest the Road Commission monitor expenditures against the adopted budget on a periodic basis, preferable monthly. Appropriate budget amendments should be adopted before year-end.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the component unit financial statements, and this report does not affect our report on the component unit financial statements, dated February 26, 2004.

This report is intended solely for the use of management and the Board of County Road Commissioners of Sanilac County, and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 26, 2004