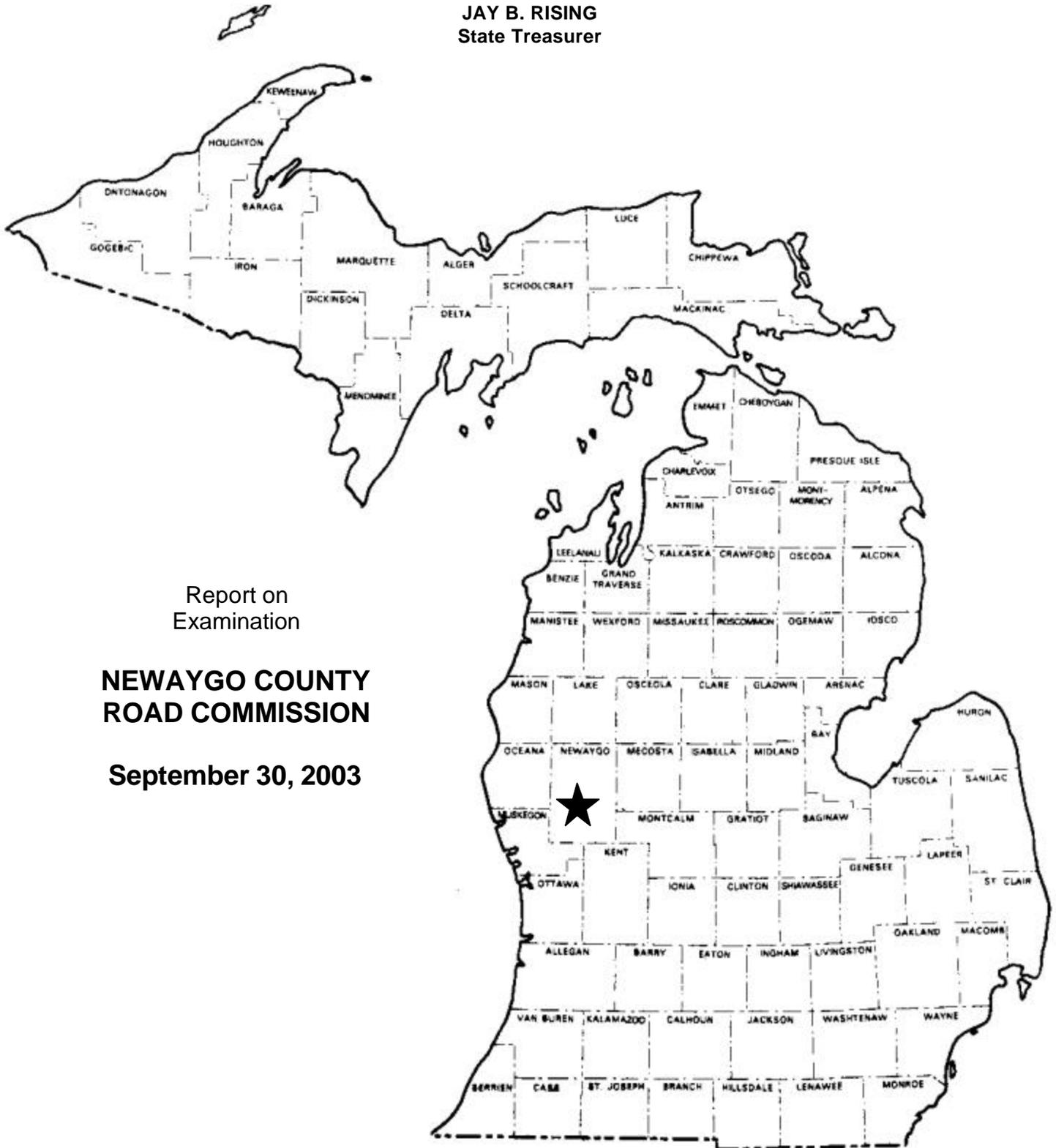


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**NEWAYGO COUNTY  
ROAD COMMISSION**

**September 30, 2003**

Local Audit and Finance Division  
Bureau of Local Government Services

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NEWAYGO COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Ronald Sanders  
Chairman

Louis Meeuwenberg  
Vice-Chairman

William Gonyon  
Member

Judith Way  
Clerk

Kelly Smith  
Manager

COUNTY POPULATION--2000  
47,874

STATE EQUALIZED VALUE--2003  
\$1,504,125,139



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JAY B. RISING  
STATE TREASURER

March 18, 2004

Newaygo County Road Commission  
Board of County Road Commissioners  
935 One Mile Road  
White Cloud, Michigan 49849

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Newaygo County Road Commission, a component unit of Newaygo County, Michigan, as of and for the year ended September 30, 2003, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of the Newaygo County Road Commission as of September 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 and budget comparison information on pages 35 and 36 are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 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. 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.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Newaygo County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits K through M is 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.



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

NEWAYGO COUNTY ROAD COMMISSION

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# NEWAYGO COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Newaygo County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2003. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### Overview of the Financial Statements

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### Reporting the Road Commission as a Whole

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. These statements include all 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 year's revenues and expenses are taken into account regardless of when cash is received or paid.

## **NEWAYGO COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The two statements mentioned above report the Road Commission's net assets and changes in them. 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 and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

#### **Report the Road Commission's Major Fund**

The fund financial statements begin on page 8 and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

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

#### **The Road Commission as a Whole**

This is the first year of implementation for GASB No. 34 and as such a comparative analysis between years has not been presented, except for the change in capital assets. The comparative analysis will be presented in subsequent years.

The Road Commission's net assets increased approximately 257.42% or \$5,523,495 from \$2,145,649 to \$7,669,144 for the year ended September 30, 2003. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,651,353 during 2003, an increase of \$279,257 from the prior year. The increase was primarily due to an increase in equipment rental credit as a result of increases in heavy maintenance and maintenance projects during the year. There was also an increase in State funds and township contributions.

**NEWAYGO COUNTY ROAD COMMISSION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

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 specified purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net or related debt) are considered restricted.

The investment in capital assets for 2003, net of related debt, was \$6,017,791, an increase of \$5,244,238 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$5,305,661 for the year 2003.

Net assets as of the year ended September 30, 2003 are as follows:

	09/30/2003 Governmental Activities
Current and Other Assets	\$ 2,491,620
Net Capital Assets	<u>7,089,130</u>
Total Assets	<u>9,580,750</u>
Current Liabilities	981,993
Long-Term Liabilities	<u>929,613</u>
Total Liabilities	<u>1,911,606</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	6,017,791
Restricted	<u>1,651,353</u>
Total Net Assets	<u>\$ 7,669,144</u>

Changes in Net Assets

Because this is the first year of implementation of the Governmental Accounting Standards Board Statement (GASB) No. 34, which requires this new reporting model, the following table presents only current year data. In future years, when prior year information is available, comparative analysis of Road Commission data will be presented.

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

A summary of changes in net assets for the year ended September 30, 2003 follows:

	Governmental Activities
Program Revenue	
Licenses and Permits	\$ 9,895
Federal Grants	729,864
State Grants	6,351,042
Contributions From Local Units	2,049,773
Charges for Services	1,189,025
Investment Earnings	14,824
Reimbursements	9,929
General Revenue	
Gain on Equipment Disposal	7,355
 Total Revenue	 10,361,707
 Expenses	
Primary Road Maintenance	1,335,823
Local Road Maintenance	2,158,092
State Trunkline Maintenance	711,337
Net Equipment Expense	(17,018)
Net Administrative Expense	556,799
Compensated Absences	29,928
Interest Expense	63,251
 Total Expenses	 4,838,212
 Increase in Net Assets	 \$ 5,523,495

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2003, the fund balance of the General Operations Fund increased \$309,185 as compared to an increase of \$272,678 in the fund balance for the nine months ended September 30, 2002 (last year). Total operating revenues were \$10,361,707, an increase of \$2,563,492 as compared to last year. This change in revenues resulted primarily from reporting on a nine month period in 2002, in comparing the two periods, there was an increase in township contributions of \$125,168, state grants of \$1,991,440, and private contributions of \$457,237.

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

Total expenditures were \$10,052,522, an increase of \$2,526,985 in comparison to last year, which was for nine months. This change in expenditures is primarily the result of an increase in maintenance, heavy maintenance and construction projects of \$2,468,598 during 2003.

**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's 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 authorized large expenditures when requested throughout the year.

The original revenue budget for 2003 was \$10,504,308, which was \$132,601 more than the actual revenue received for the year. This was due, in large part, to the Road Commission not receiving certain Federal and State aid projects during the year as originally planned.

The Road Commission's original expenditures were projected at \$10,504,308, while actual expenditures were \$10,052,522, resulting in actual expenditures being less than the budget by \$451,786. This was primarily due to the Road Commission not receiving certain Federal and State aid projects as originally anticipated; and the increase in equipment rental credits, which reduced the net equipment expense to a negative amount.

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

**Capital Assets and Debt Administration**

Capital Assets

As of September 30, 2003, the Road Commission had \$7,090,226 invested in capital assets as follows:

	<u>09/30/2002</u>	<u>09/30/2003</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 66,534	\$ 66,534	0.00%
Infrastructure--Land and Improvements		<u>1,980,787</u>	<u>100.00%</u>
Subtotal	<u>66,534</u>	<u>2,047,321</u>	<u>96.75%</u>
Capital Assets Being Depreciated			
Buildings	987,966	987,966	0.00%
Road Equipment	5,244,426	5,264,352	0.38%
Shop Equipment	152,129	195,658	22.25%
Office Equipment	84,738	85,902	1.36%
Engineer's Equipment	86,585	92,767	6.66%
Administration Car	34,203	63,998	46.56%
Infrastructure--Bridges		3,238,103	100.00%
Infrastructure--Roads		<u>86,771</u>	<u>100.00%</u>
Subtotal	<u>6,590,047</u>	<u>10,015,517</u>	<u>34.20%</u>
Total Capital Assets	6,656,581	12,062,838	44.82%
Total Accumulated Depreciation	<u>(4,726,589)</u>	<u>(4,973,708)</u>	<u>4.97%</u>
Total Net Capital Assets	<u>\$ 1,929,992</u>	<u>\$ 7,089,130</u>	<u>72.78%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$5,305,661. The infrastructure recorded, during 2002, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

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

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

Reconstruction of Bridges (by Location)	\$ 142,980
Various Resurfacing Projects and Related Land/Right-of-Way	5,162,681
Road and Shop Equipment	202,095
Administrative, Office and Engineering Equipment	<u>46,819</u>
 Total Additions	 <u><u>\$ 5,554,575</u></u>

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

During 2003, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$148,318 and related depreciation of \$141,127.

Debt

At the year end, the Road Commission had \$1,071,339 in installment purchase agreements versus \$1,156,439 last period, a decrease of \$85,100 or 7.36% as shown below:

	<u>2002</u>	<u>2003</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 1,156,439</u>	<u>\$ 1,071,339</u>	<u>\$ 85,100</u>	<u>7.36%</u>
Total	<u><u>\$ 1,156,439</u></u>	<u><u>\$ 1,071,339</u></u>	<u><u>\$ 85,100</u></u>	<u><u>7.36%</u></u>

More detailed information about the Road Commission's long-term liabilities is presented in Note F to the financial statements.

During 2003, there was no new debt; also, in 2004, the Road Commission does not anticipate borrowing or financing of any new debt related to the acquisition of capital assets.

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

**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 64% of its revenue from the fuel tax collected in 2003. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission received approximately 20% of its revenues from township contributions during 2003. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are anticipating that the townships will spend \$2,400,000 with an incentive program of \$450,000 towards any projects on a prorated basis. During 2004, we expect to receive \$1,000,000 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 \$9,984,650.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Newaygo County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Newaygo County.

**Contacting the Road 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 accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Newaygo County administrative offices at: 935 One Mile Road, White Cloud, Michigan 49349.

**NEWAYGO COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
September 30, 2003**

**EXHIBIT A**

**ASSETS**

Cash	\$ 744,925
Investments	3,971
Accounts Receivable	
Sundry Accounts	6,525
State--Trunkline Maintenance	40,943
Michigan Transportation Fund	852,925
State--Other	78,093
Due on County Road Agreements	335,849
Inventories	
Road Materials	283,002
Equipment Parts and Materials	145,387
Capital Assets (Net of Accumulated Depreciation)	<u>7,089,130</u>
Total Assets	<u>9,580,750</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	237,400
Due to State of Michigan	32,457
Accrued Liabilities	48,946
Installment Purchase Agreements Payable	89,346
Non-Current Liabilities	
Advance From State	207,536
Advance From Townships	77,475
Installment Purchase Agreements Payable	981,993
Vested Employee Benefits Payable	<u>236,453</u>
Total Liabilities	<u>1,911,606</u>

**NET ASSETS**

Investment in Capital Fixed Assets Net of Related Debt	6,017,791
Restricted for County Roads	<u>1,651,353</u>
Total Net Assets	<u><u>\$ 7,669,144</u></u>

**NEWAYGO COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2003**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 1,335,823
Local Road Maintenance	2,158,092
State Trunkline Maintenance	711,337
Net Equipment Expense	(17,018)
Net Administrative Expense	556,799
Compensated Absences	29,928
Interest Expense	63,251
	<hr/>
Total Program Expenses	4,838,212
	<hr/>
Program Revenue	
License and Permits	9,895
Federal Grants	729,864
State Grants	6,351,042
Contributions From Local Units	2,049,773
Charges for Services	1,189,025
Investment Earnings	14,824
Reimbursements	9,929
	<hr/>
Total Program Revenue	10,354,352
	<hr/>
Net Program Revenue	5,516,140
	<hr/>
General Revenue	
Gain on Equipment Disposal	7,355
	<hr/>
Total General Revenues and Transfers In	7,355
	<hr/>
Change in Net Assets	5,523,495
	<hr/>
Net Assets	
Beginning of Year	2,145,649
	<hr/>
End of Year	\$ 7,669,144
	<hr/> <hr/>

**NEWAYGO COUNTY ROAD COMMISSION  
BALANCE SHEET  
September 30, 2003**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$ 744,925
Investments	3,971
Accounts Receivable--Sundry	6,525
Due From State	
Trunkline Maintenance	40,943
Michigan Transportation Fund	852,925
Other--DNR	78,093
Due on County Road Agreements	335,849
Inventories	
Road Materials	283,002
Equipment Parts and Materials	<u>145,387</u>
Total Assets	<u><u>\$ 2,491,620</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 237,400
Due to State	32,457
Accrued Liabilities	48,946
Advances	
State Trunkline Equipment Purchase	157,428
State Trunkline Maintenance	50,108
Townships	<u>77,475</u>
Total Liabilities	<u>603,814</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	428,389
Unreserved and Undesignated	<u>1,459,417</u>
Total Fund Equities	<u>1,887,806</u>
Total Liabilities and Fund Equities	<u><u>\$ 2,491,620</u></u>

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

**NEWAYGO COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALNCE TO  
THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2003**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 1,887,806
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activites are not financial resources and, therefore, are not reported in the funds.	7,089,130
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,307,792)</u>
Net Assets of Governmental Activities	<u><u>\$ 7,669,144</u></u>

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

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

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Permits	\$ 9,895
Federal Grants	729,864
State Grants	6,351,042
Contributions From Local Units	2,049,773
Charges for Services	721,788
Interest and Rents	14,824
Other Revenue	<u>484,521</u>
Total Revenues	<u>10,361,707</u>
Expenditures	
Public Works	9,655,257
Capital Outlay	248,914
Debt Service	<u>148,351</u>
Total Expenditures	<u>10,052,522</u>
Excess of Revenues Over (Under) Expenditures	309,185
Fund Balance--October 1, 2002	<u>1,578,621</u>
Fund Balance--September 30, 2003	<u><u>\$ 1,887,806</u></u>

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

**NEWAYGO COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2003**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 309,185

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

Governmental funds report capital outlays as expenditures.  
However, in the Statement of Activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. This is the amount  
by which capital outlays exceeded depreciation in the current period. 5,159,138  
Equipment retirement is recorded as an expenditure credit in governmental  
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,  
but entering into lease agreements increases long-term liabilities in the 85,100  
Statement of Net Assets. Repayment of notes/leases payable is an  
expenditure in governmental funds, but reduces the long-term liabilities in the  
Statement of Net Assets.

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and, therefore, are not reported as expenditures  
in governmental funds. (Increase in compensated absences and decrease in  
interest expense) (29,928)

Change in Net Assets of Governmental Activities \$ 5,523,495

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

**NEWAYGO COUNTY ROAD COMMISSION  
FIDUCIARY FUND--STATEMENT OF NET ASSETS  
September 30, 2003**

**EXHIBIT G**

	<u>Pension Trust</u>
<b><u>ASSETS</u></b>	
Investments at Fair Market Value	
US Government, Agencies, and Corporate Securities	\$ 1,538,072
Money Market Funds	375,891
Common Stocks	2,270,562
Accrued Income	<u>21,537</u>
Total Assets	<u>4,206,062</u>
<b><u>LIABILITIES</u></b>	
Total Liabilities	<u>-</u>
<b><u>NET ASSETS</u></b>	
Held in Trust for Pension Benefits	<u><u>\$ 4,206,062</u></u>

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

**NEWAYGO COUNTY ROAD COMMISSION  
 FIDUCIARY FUNDS--CHANGES IN NET ASSETS  
 For the Year Ended September 30, 2003**

**EXHIBIT H**

	<u>Pension Trust</u>
Additions	
Contributions	
Employer	\$ 236,000
Employee	<u>2,204</u>
Total Contributions	<u>238,204</u>
Investment Income	
Interest and Dividends	156,660
Realized Gain (Loss) From Sale of Investments	(100,207)
Net Appreciation (Depreciation) in Fair Value of Investments	<u>334,640</u>
Net Investment Income (Loss)	<u>391,093</u>
Total Additions	<u>629,297</u>
Deductions	
Benefit Payments	256,981
Administrative and Other Expenses	<u>27,600</u>
Total Deductions	<u>284,581</u>
Change in Net Assets	344,716
Net Assets Held in Trust for Pension Benefits--October 1, 2002	<u>3,861,346</u>
Net Assets Held in Trust for Pension Benefits--September 30, 2003	<u><u>\$ 4,206,062</u></u>

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

# NEWAYGO COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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

### NOTE A--REPORTING ENTITY

The Newaygo County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an appointed 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

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 Newaygo County Road Commission, a component unit of Newaygo County.

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

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

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

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

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

# NEWAYGO COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, state/federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

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

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

# NEWAYGO COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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

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

#### Cash, Cash Equivalents and Investments

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

#### Inventories

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

#### Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Newaygo County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated 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 Newaygo 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 September 30, 2007, as permitted by GASB Statement No. 34.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Depreciation

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

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

Long-Term Obligations

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

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, 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.

NOTE C--BUDGETARY PROCEDURES

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

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--BUDGETARY PROCEDURES (Continued)

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for 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 Public Act 2 of 1968, as amended. The following activities and total expenditures exceeded the amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Local Road--Construction		\$ 467,237	\$ (467,237)
Primary Road Structures--Heavy Maintenance		90,395	(90,395)
Local Road Structures--Heavy Maintenance		52,586	(52,586)
Local Road Structures--Maintenance	\$ 10	2,912	(2,902)
State Trunkline Maintenance	459,284	620,250	(160,966)
State Trunkline Nonmaintenance		91,087	(91,087)

NOTE D--CASH DEPOSITS AND INVESTMENTS

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

The Road Commission has adopted an investment policy in accordance with the requirements of Public Act 196 of 1997, and includes all the investments listed above.

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

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS AND INVESTMENTS (Continued)

The risk disclosures for the Road Commission's deposits and investments, as required by GASB Statement No. 3, are as follows:

<u>Imprest Cash and Deposits</u>	<u>Carrying Amount</u>	<u>Institution Balances</u>
Operating Fund		
Uninsured	\$ 644,825	\$ 1,020,880
Insured (FDIC)	100,000	100,000
Imprest Cash	<u>100</u>	<u>                    </u>
Total Operating Fund	<u>\$ 744,925</u>	<u>\$ 1,120,880</u>

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

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Operating Fund					
Risk-Categorized					
US Government Securities		\$ 177		\$ 177	\$ 177
Nonrisk-Categorized					
Fifth Third Money Market Fund				<u>3,794</u>	<u>3,794</u>
Total Operating Fund				<u>\$ 3,971</u>	<u>\$ 3,971</u>
Pension Trust Fund					
Risk-Categorized					
US Government, Agencies and Corporate Securities				\$ 1,538,072	\$ 1,538,072
Nonrisk-Categorized					
Fifth Third Bank Money Market Fund				375,891	375,891
Common Stocks				2,270,562	2,270,562
Accrued Income				<u>21,537</u>	<u>21,537</u>
Total Pension Trust				<u>\$ 4,206,062</u>	<u>\$ 4,206,062</u>
Total Investments				<u>\$ 4,210,033</u>	<u>\$ 4,210,033</u>

# NEWAYGO COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH DEPOSITS AND INVESTMENTS (Continued)

Risk-Categories: (1) Insured or registered, or securities held by the entity or its agent in the entity's name; (2) Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the entity's name; (3) Uninsured and unregistered, with the securities held by the counterparty, or by its trust department but not in the entity's name. The money market investments are invested in a pooled money market, which cannot by definition be categorized by risk, which is in accordance with GASB Statement No. 3.

#### Pension Trust Fund

Michigan Compiled Laws, Section 38.1121, authorizes the Road Commission to invest pension assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature and real or personal property. Specific limitations apply to the various investment types. The Road Commission pension fund investments are in accordance with statutory authority. Some pension trust monies are invested in common stocks and money market funds, which cannot by definition be categorized by risk, which is in accordance with GASB Statement No. 3.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

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

	Account Balances <u>09/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Account Balances <u>09/30/03</u>
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 66,534			\$ 66,534
Infrastructure Land Improvements		<u>\$ 1,980,787</u>		<u>1,980,787</u>
Subtotal	<u>66,534</u>	<u>1,980,787</u>	<u>\$ -</u>	<u>2,047,321</u>
Capital Assets Being Depreciated				
Buildings	987,966			987,966
Road Equipment	5,244,426	158,566	138,640	5,264,352
Shop Equipment	152,129	43,529		195,658
Office Equipment	84,738	7,547	6,383	85,902
Engineers' Equipment	86,585	9,477	3,295	92,767
Administration Car	34,203	29,795		63,998
Infrastructure--Bridges		3,238,103		3,238,103
Infrastructure--Roads		<u>86,771</u>		<u>86,771</u>
Total	<u>6,590,047</u>	<u>3,573,788</u>	<u>148,318</u>	<u>10,015,517</u>
Less Accumulated Depreciation				
Buildings	642,613	26,851		669,464
Road Equipment	3,805,668	342,293	133,877	4,014,084
Shop Equipment	147,223	803		148,026
Office Equipment	44,483	6,476	5,053	45,906
Engineers' Equipment	57,162	5,325	2,197	60,290
Administration Car	<u>29,440</u>	<u>6,498</u>		<u>35,938</u>
Total	<u>4,726,589</u>	<u>388,246</u>	<u>141,127</u>	<u>4,973,708</u>
Net Capital Assets Being Depreciated	<u>1,863,458</u>	<u>3,185,542</u>	<u>7,191</u>	<u>5,041,809</u>
Total Net Capital Assets	<u>\$ 1,929,992</u>	<u>\$ 5,166,329</u>	<u>\$ 7,191</u>	<u>\$ 7,089,130</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 342,293
Indirect Equipment	27,589
Net Administrative Expenses	
Administrative	6,498
Building	6,541
Engineering	<u>5,325</u>
Total Depreciation Expense	<u>\$ 388,246</u>

Infrastructure assets will be depreciated in the following year for the current year.

NOTE F--GENERAL LONG-TERM DEBT ACCOUNT GROUP

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

	<u>Balance</u> <u>09/30/02</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>09/30/03</u>
2 Caterpillar Motor Grades Model 140H and 1 Caterpillar Motor Grader Model 143H \$527,300 Capital Lease Dated February 20, 2000	\$ 415,176	\$ (31,370)	\$ 383,806
Caterpillar Motor Grader Model 143H \$212,100 Capital Lease Dated February 24, 2000	162,250	(14,379)	147,871
Caterpillar Wheel Loader Model 950G \$152,100 Capital Lease Dated February 24, 2000	124,209	(7,399)	116,810
Caterpillar Wheel Loader Model 950G \$152,300 Capital Lease Dated August 10, 2000	124,291	(7,438)	116,853
Caterpillar Wheel Loader Model 966G \$225,300 Capital Lease Dated September 28, 2000	177,289	(13,216)	164,073
Komatsu Excavator Model PC270LC-6L \$171,800 Capital Lease Dated November 13, 2001	153,224	(11,298)	141,926
Vested Employee Benefits Vacation and Sick Leave	<u>206,525</u>	<u>29,928</u>	<u>236,453</u>
Totals	<u>\$1,362,964</u>	<u>\$ (55,172)</u>	<u>\$1,307,792</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

Two Caterpillar Motor Graders Model 140H and a Caterpillar Motor Grader Model 143H were purchased in February 2000 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$527,300, with 5 annual payments of \$54,204.70 and a \$370,000 balloon payment due in February 2005 at an implied interest rate of 5.50%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/03</u>	<u>Interest Payable if Held to Maturity</u>
02/20/00	\$ 527,300	5.50%	2004	\$ 33,095	\$ 21,110
			2005	<u>350,711</u>	<u>19,289</u>
Total				<u>\$ 383,806</u>	<u>\$ 40,399</u>

A Caterpillar Motor Grader Model 143H was purchased in February 2000 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$212,100, with 5 annual payments of \$23,302.48 and a \$140,000 balloon payment due in February 2005 at an implied interest rate of 5.50%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/03</u>	<u>Interest Payable if Held to Maturity</u>
02/24/00	\$ 212,100	5.50%	2004	\$ 15,170	\$ 8,133
			2005	<u>132,701</u>	<u>7,299</u>
Total				<u>\$ 147,871</u>	<u>\$ 15,432</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

A Caterpillar Wheel Loader Model 950G was purchased in February 2000 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$152,100, with 5 annual payments of \$14,230.28 and a \$115,000 balloon payment due in February 2005 at an implied interest rate of 5.50%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/03</u>	<u>Interest Payable if Held to Maturity</u>
02/24/00	\$ 152,100	5.50%	2004	\$ 7,806	\$ 6,424
			2005	<u>109,004</u>	<u>5,995</u>
Total				<u>\$ 116,810</u>	<u>\$ 12,419</u>

A Caterpillar Wheel Loader Model 950G was purchased in September 2000 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$152,300, with 5 annual payments of \$14,274.67 and a \$115,000 balloon payment due in August 2005 at an implied interest rate of 5.50%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/03</u>	<u>Interest Payable if Held to Maturity</u>
08/10/00	\$ 152,300	5.50%	2004	\$ 7,848	\$ 6,427
			2005	<u>109,005</u>	<u>5,995</u>
Total				<u>\$ 116,853</u>	<u>\$ 12,422</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

A Caterpillar Wheel Loader Model 966G was purchased in September 2000 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$225,300, with 5 annual payments of \$23,764.49 and a \$159,000 balloon payment due in October 2005 at an implied interest rate of 5.95%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/02</u>	<u>Interest Payable if Held to Maturity</u>
09/28/00	\$225,300	5.95%	2004	\$ 14,002	\$ 9,762
			2005	<u>150,071</u>	<u>8,929</u>
Total				<u>\$ 164,073</u>	<u>\$ 18,691</u>

A Komatsu Excavator Model PC270LC-6L was purchased in November 2001 under a lease purchase agreement through Komatsu Financial Services Corporation. The original purchase price was \$171,800, with 5 annual payments of \$18,567.39 and a \$110,000 balloon payment due in October 2006 at an implied interest rate of 4.75%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/02</u>	<u>Interest Payable if Held to Maturity</u>
11/13/01	\$171,800	4.75%	2003	\$ 11,834	\$ 6,741
			2004	12,397	6,179
			2005	12,986	5,590
			2006	<u>104,709</u>	<u>5,293</u>
Total				<u>\$ 141,926</u>	<u>\$ 23,803</u>

Vested Employee Benefits

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee on his or her anniversary date. Union employees must generally use vacation leave within 1 year after being earned. If a union employee has less than 1 day unused, he/she will be paid for that time. A union employee, however, may request carryover of 10 unused vacation days into the next year under special circumstances. Foremen and management employees may carry forward 50% of vacation leave earned to the following year but may not extend it beyond 1 year. Upon termination of employment, vacation leave is payable at 100%. The liability recorded in the general long-term debt account group for vacation earned but not used as of September 30, 2003 totaled \$82,953 based on 100% of the vacation leave balances.

# NEWAYGO COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--GENERAL LONG-TERM DEBT ACCOUNT GROUP (Continued)

Sick leave is accumulated at the rate of 1 day per month by union employees and ½ day per month for management and administrative employees not to exceed 1200 hours or 150 days.

Sick leave is payable at 50% to the maximum of 75 days when an employee retires or dies. The sick leave benefits recorded in the general long-term debt account group consist of 50% of accumulated sick leave, which amounted to \$153,500.

### NOTE G--EMPLOYEES' RETIREMENT SYSTEM

#### Plan Description

The Newaygo County Road Commission pension plan is a single employer-defined benefit plan administered through Fifth Third Bank. The information disclosed as of September 30, 2003, is based on information provided by Fifth Third Bank. The Fifth Third Bank plan had 49 active participants and 28 retirees as of January 1, 2003, the most recent period for which actuarial data was available. The plan administrator, Fifth Third Bank, did not issue a separate report for the year 2003.

The system provides retirement, disability and death benefits to plan members and their beneficiaries, in accordance with the Road Commission labor agreements and personnel policies.

#### Funding Policy

The board of county road commissioners had established a payment of \$23,000 per month to fund the plan. During the January 28, 1998 meeting, the board authorized the investment of future contributions in a stock fund. Fifth Third Bank separately identifies and reports on the contributions and earnings in a "Defined Benefit Pension Plan Account." During 2003, contributions were invested in money market investments, stocks, and bonds.

#### Contributions

Employees are not required to or able to contribute any funds after June 4, 1991; except, effective February 27, 2002, management staff employees may purchase up to five years of service under the plan for covered military service. Prior employee accumulations receive 3% interest. The Road Commission makes contributions in accordance with the minimum recommended employer contribution required by the actuary plan. During the plan year ended April 30, 2002, the Road Commission contributed \$274,160 and the required minimum recommended contribution was \$190,618.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Summary of Significant Accounting Policies and Plan Asset Matters

The assets of the pension plan consist of money market investments, stocks, and bonds purchased under the control of Fifth Third Bank. The company currently provides monthly "statement highlights" providing a summary of balances, which provides the income and expense data accounting for the monthly changes in the Group Annuity Contract value for the General Account only. These statements provided for the audit report are effective through December 31 each year.

Schedule of Funding Progress (2)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
01/01/03*	\$3,935,638	\$3,667,795	93%	-	\$1,864,260	0%
04/30/02	4,135,792	3,519,773	85	\$ (378,431)	1,663,528	23
04/30/01	4,165,895	3,354,031	81	(476,792)	1,631,206	29
04/30/00	5,106,455	4,514,850	88	(485,069)	1,473,654	33
04/30/99	4,239,124	4,778,890	89	(539,766)	1,309,680	41
04/30/98	3,973,188	4,580,168	87	(606,980)	1,240,481	49
04/30/97	3,766,554	4,745,673	79	(979,119)	1,069,693	92
04/30/96	3,627,282	4,570,908	79	(943,706)	1,115,510	85
04/30/95	3,672,864	4,473,631	82	(800,767)	1,143,591	70

\*8 month plan year ending December 31, 2002

Schedule of Employer Contributions

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
01/01/03*	\$267,087	\$145,363	54%
04/30/02	134,405	274,160	204
04/30/01	190,618	207,000	109
04/30/00	183,205	184,000	100
04/30/99	235,781	276,000	117
04/30/98	223,655	276,000	123
04/30/97	255,557	241,000	94
04/30/96	268,070	234,000	87

\*8 month plan year ending December 31, 2002

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2003, the latest actuarial valuation, follows:

Actuarial Cost Method Frozen Initial Liability	
Amortization Method	Level Percent, Closed
Remaining Amortization Period	(1)
Asset Valuation Method	(1)
Actuarial Assumptions	
Investment Rate of Return	8%
Projected Salary Increases	5%
Includes Inflation at 4%	
Cost of Living Adjustments	None

(1) Information not provided in actuarial report.

(2) GASB Statements No. 25 and No. 27 require 10 years of information. Information not available to complete table per GASB Statement No. 25 and GASB Statement No. 27.

NOTE H--DEFERRED COMPENSATION PLAN

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

## NEWAYGO COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE I--POST-EMPLOYMENT BENEFITS

Newaygo County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The Road Commission pays all costs for health insurance premiums, including spouse, for management employees who retire at age 55 with 30 years service, but not later than 62 and continuing until the retiree reaches age 65, or from early optional retirement date of age 55 with 10 years or more of service and continuing until the retiree and his spouse reach age 65. After age 65, retirees must reimburse the employer for the cost of insurance. The Road Commission continues to pay the premiums for union employees, including spouse, who retire at age 62 with 10 years service, or from early optional retirement date of age 55 with 10 years or more of service, and continuing until the retiree and their spouse reach age 65. Effective June 1, 1999, the Road Commission shall pay for the Medicare Supplemental available to continue coverage at the rate of 25% of the premium for Medicare Supplemental Coverage for union employees. Prior to June 1, 1999, after age 65, retirees must reimburse the employer for the cost of insurance.

Employees who retire before the respective age limits do not qualify for health insurance even though they may have the required years of service.

Currently, 7 retirees met those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Net premiums paid by the Road Commission for retirees during 2003 totaled \$30,449. There were no retirees that qualified for the Medicare Supplemental Coverage.

#### NOTE J--RISK MANAGEMENT

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions 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. Commercial insurance was purchased for health care benefits.

The Road Commission also has self-insurance for worker's compensation as a member of the County Road Association Self-Insurance Fund.

At September 30, 2003, there were no claims which exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

# NEWAYGO COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--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 \$663,413 for contracted projects and \$66,451 for negotiated 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. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

### NOTE L--SUBSEQUENT EVENT

The Newaygo County Road Commission brought a lawsuit against Ensley Sand & Gravel, Inc., for damages, attorney fees, and costs. In February 2004, a judgement was issued for the Road Commission in the amount \$58,829. The amount has not been received and the Road Commission does not know when the amount will be received. Therefore, no receivable has been established on the records of the Road Commission.

### NOTE M--CHANGE IN ACCOUNTING PRINCIPLE

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

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the accrual basis of accounting. Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating contributed capital accounts and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations, and conditions that could have a significant effect on the financial position or results of operations.

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

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE N--STATE TRUNKLINE MAINTENANCE REVENUE AND EXPENDITURES

The \$1,064 difference between the State trunkline maintenance revenues of \$621,314 and expenditures of \$620,250 consists of a billing that was submitted twice and reimbursed for twice. The \$5,837 difference between the State trunkline non-maintenance revenues of \$96,920 and expenditures of \$91,087 is for a computer that was purchased two years ago and reimbursed for in this fiscal year.

**NEWAYGO COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTAL INFORMATION  
STATEMENT OF REVENUES--BUDGETARY COMPARISON SCHEDULE  
For the Year Ended September 30, 2003**

**EXHIBIT I**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Weight Permits	-	-	\$ 9,895	\$ 9,895
Federal Grants				
Surface Transportation Program	\$ 300,000	\$ 412,091	566,814	154,723
"D" Funds	631,983	718,900	96,599	(622,301)
US Forest Service Projects	1,588,605	66,555	66,451	(104)
Culvert Grant	63,420	420		(420)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,687,672	3,620,970	3,032,128	(588,842)
Local Road	2,480,928	2,771,172	2,355,371	(415,801)
Snow Removal	20,000	35,650	35,634	(16)
Economic Development Funds				
Rural Primary (D)		-	106,404	106,404
Forest Funds (E)	101,200	202,334	202,334	-
STP Buy Out	1,000	100	609,171	609,071
Contributions--Local Units				
Townships	1,900,000	2,011,772	2,049,773	38,001
Charges for Services				
State Trunkline Maintenance	589,500	621,313	621,313	-
State Trunkline Nonmaintenance	10,000	96,920	96,920	-
Salvage Sales	-	-	3,305	3,305
Road Abandonment Fees	-	-	250	250
Interest and Rents				
Interest Earned	-	-	14,824	14,824
Other Revenue				
Insurance Recoveries	80,000	14,705	9,909	(4,796)
Contributions From Private Sources	30,000	30,000	467,237	437,237
Refunds		-	20	20
Gain on Equipment Disposal		-	7,355	7,355
Total Revenue	10,494,308	10,612,902	<u>\$ 10,361,707</u>	\$ (251,195)
Fund Balance--October 1, 2002	<u>10,000</u>	<u>1,209,358</u>		
Total Budget	<u>\$ 10,504,308</u>	<u>\$ 11,822,260</u>		

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

**NEWAYGO COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTAL INFORMATION  
STATEMENT OF EXPENDITURES--BUDGETARY COMPARISON SCHEDULE  
For the Year Ended September 30, 2003**

**EXHIBIT J**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 3,481,211	\$ 2,638,765	\$ 2,367,344	\$ 271,421
Maintenance	1,191,000	1,427,820	1,335,343	92,477
Local Road				
Construction	-	-	467,237	(467,237)
Heavy Maintenance	1,400,000	2,740,823	2,328,099	412,724
Maintenance	2,070,000	2,313,939	2,155,180	158,759
Primary Road Structure				
Heavy Maintenance	-	-	90,395	(90,395)
Maintenance	67,507	90,395	480	89,915
Local Road Structure				
Heavy Maintenance	-	-	52,586	(52,586)
Maintenance	10,000	10	2,912	(2,902)
State Trunkline Maintenance	589,500	459,284	620,250	(160,966)
State Trunkline Nonmaintenance	-	-	91,087	(91,087)
Equipment Expense--Net	600,000	1,131,170		
Direct			\$ 859,080	
Indirect			396,870	
Operating			275,088	
Less: Equipment Rentals			<u>(1,548,056)</u>	1,148,188
Administrative Expense--Net	600,000	622,568		
Administrative Expense			617,864	
Less: Handling Charges			(10)	
Purchase Discounts			(601)	
Overhead--State			<u>(60,454)</u>	65,769
Capital Outlay--Net	255,000	249,134		
Capital Outlay			248,914	
Less: Depreciation Credits			(388,246)	
Equipment Retirements			<u>(7,191)</u>	395,657
Debt Service				
Principal Payments	138,784	85,100	85,100	-
Interest Expense	101,306	63,252	63,251	1
Total Expenditures	10,504,308	11,822,260	<u>\$ 10,052,522</u>	<u>\$ 1,769,738</u>
Fund Balance--September 30, 2003	<u>-</u>	<u>-</u>		
Total Budget	<u>\$ 10,504,308</u>	<u>\$ 11,822,260</u>		

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

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

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 4,723,051	\$ 4,878,996	\$ 759,660	\$ 10,361,707
Total Expenditures	4,029,086	5,312,533	710,903	10,052,522
Excess of Revenues Over (Under) Expenditures	693,965	(433,537)	48,757	309,185
Other Financing Sources (Uses) Optional Transfers	(189,169)	189,169		-
Total Other Financing Sources (Uses)	(189,169)	189,169	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	504,796	(244,368)	48,757	309,185
Fund Balance--October 1, 2002	195,548	244,368	1,138,705	1,578,621
Fund Balance--September 30, 2003	\$ 700,344	\$ -	\$ 1,187,462	\$ 1,887,806

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

**EXHIBIT L**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Weight Permits			\$ 9,895	\$ 9,895
Federal Grants				
Surface Transportation Program	\$ 566,814			566,814
"D" Funds	96,599			96,599
US Forest Service Projects	66,451			66,451
State Grants				
Michigan Transportation Fund				
Engineering	5,680	\$ 4,320		10,000
Allocation	3,032,128	2,355,371		5,387,499
Snow Removal	35,634			35,634
Economic Development Fund				
Rural Primary (D)	106,404			106,404
Forest Funds (E)	202,334			202,334
STP Buy Out	609,171			609,171
Contributions--Local Units				
Townships		2,049,773		2,049,773
Charges for Services				
State Trunkline Maintenance			621,313	621,313
State Trunkline Nonmaintenance			96,920	96,920
Salvage Sales			3,305	3,305
Road Abandonment Fees			250	250
Interest and Rents				
Interest Earned	1,836	2,295	10,693	14,824
Other Revenue				
Insurance Recoveries			9,909	9,909
Contributions From Private Sources		467,237	-	467,237
Refunds			20	20
Gain on Equipment Disposal			7,355	7,355
Total Revenue	\$ 4,723,051	\$ 4,878,996	\$ 759,660	\$ 10,361,707

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

**EXHIBIT M**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 2,367,344			\$ 2,367,344
Maintenance	1,335,343			1,335,343
Local Road				
Construction		\$ 467,237		467,237
Heavy Maintenance		2,328,099		2,328,099
Maintenance		2,155,180		2,155,180
Primary Road Structures				
Heavy Maintenance	90,395			90,395
Maintenance	480			480
Local Road Structures				
Heavy Maintenance		52,586		52,586
Maintenance		2,912		2,912
State Trunkline Maintenance			\$ 620,250	620,250
State Trunkline Nonmaintenance			91,087	91,087
Equipment Expense--Net (Per Exhibit D)	(4,517)	(10,239)	(2,262)	(17,018)
Administrative Expense--Net (Per Exhibit D)	240,041	316,758		556,799
Capital Outlay--Net (Per Exhibit D)			(146,523)	(146,523)
Debt Service				
Principal Payments			85,100	85,100
Interest Payments			63,251	63,251
<b>Total Expenditures</b>	<b>\$ 4,029,086</b>	<b>\$ 5,312,533</b>	<b>\$ 710,903</b>	<b>\$ 10,052,522</b>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JAY B. RISING  
STATE TREASURER

March 18, 2004

Newaygo County Road Commission  
Board of County Road Commissioners  
935 One Mile Road  
White Cloud, Michigan 49849

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 basic financial statements of the Newaygo County Road Commission, a component unit of Newaygo County, as of and for the year ended September 30, 2003, and have issued our report thereon dated March 18, 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 Newaygo County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards, however, we did note an instance of noncompliance described in the accompanying Comments and Recommendations as item 03-3.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Road Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Comments and Recommendations as item 03-1 and 03-2.

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 auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use 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.



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

## NEWAYGO COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### OTHER REPORTABLE CONDITIONS

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

#### Accounts Payable--Reconciliation of Distribution Control Accounts to Subsidiary Records

*Finding 03-1*

*Condition:* Prior to audit adjustments, the control accounts for accounts payable in the year-end distribution report did not agree with subsidiary records and reports by \$22,794.

*Criteria:* Subsidiary records should reconcile to control accounts. Specifically, accounts payable should agree with the open invoice reports.

*Recommendation:* We recommend that, prior to closing the books at year-end, responsible Road Commission personnel compare relevant subsidiary records and reports to the distribution report to assure that the balances in all the above described control accounts agree with the totals of the supporting records and reports.

#### Improper Recording of Federal Awards

*Finding 03-2*

*Condition:* The Road Commission is currently recording all Federal grants from the Michigan Department of Transportation (MDOT) as part of the Federal Surface Transportation Program. The Road Commission is not monitoring the sources of funding whether it be Federal and/or State or the maximum amounts to be received which led to revenue reclassifications of \$602,100 and a reduction of heavy maintenance of \$371,916.

*Criteria:* Grants issued by MDOT state the cost of participation (Federal, State and local) of each project, maximum amounts allowed, and the amount for which the Road Commission is responsible.

*Recommendation:* We recommend that the responsible Road Commission personnel review the grant agreements to ensure the accuracy of the posting of the revenues and expenditures for the grants received from MDOT.

# NEWAYGO COUNTY ROAD COMMISSION

## COMMENTS AND RECOMMENDATIONS

### STATUTORY COMPLIANCE

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

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

*Finding 03-3*

*Condition:* As detailed in Exhibit J, expenditures in 5 of 14 activities exceeded the amended budget, and expenditures exceeded the budget in total.

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

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

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

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

*Direction:* We direct that the Road Commission comply with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act, being Sections 141.421-141.440 of the Michigan Compiled Laws.