

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Road Commission for Oakland County	County Oakland
Audit Date September 30, 2003	Opinion Date December 30, 2003	Date Accountant Report Submitted To State: March 2, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | | | |
|---|--|---|---|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. | |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). | |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). | |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. | |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) | |
| N/A | <input type="checkbox"/> yes | <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). | |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). | |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). | |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

Road Commission for Oakland County

**Financial Report
with Supplementary Information
September 30, 2003**

Road Commission for Oakland County

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Independent Auditor's Report

To the Board of Road Commissioners
Road Commission for Oakland County

We have audited the accompanying basic financial statements of the Road Commission for Oakland County, Michigan as of and for the year ended September 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission for Oakland County, Michigan at 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.

In accordance with *Government Auditing Standards*, there is also our report dated December 30, 2003 on our consideration of the Road Commission's internal control over financial reporting and our subsequent report on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. These reports are 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 the required supplemental information are not a required part of the basic financial statements but are supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Road Commissioners
Road Commission for Oakland County

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission for Oakland County. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 30, 2003, except for Note 15 as to
which the date is January 21, 2004

Road Commission for Oakland County

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2003. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns tell us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

These two statements are followed by the Pension Trust Fund statement of plan net assets and statement of changes in plan net assets. These statements provide information about the retirement system, for which the Road Commission acts solely as trustee for the benefit of current and future retirees.

Financial Analysis of the Road Commission as a Whole

The following table provides condensed information about the total full accrual finances of the Road Commission as of September 30, 2003 and 2002 and for the years then ended. As discussed above, the total full accrual columns 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 may be one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, the reader also needs to consider additional nonfinancial factors such as changes in the condition of the Road Commission's roads and changes in the law related to gas taxes and their distribution.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

	September 30	
	2003	2002
Assets		
Current and other assets	\$ 101,449,364	\$ 95,521,624
Capital assets	505,883,937	471,293,449
Total assets	<u>607,333,301</u>	<u>566,815,073</u>
Liabilities		
Current liabilities	40,624,746	38,638,694
Long-term liabilities	17,175,974	18,344,800
Total liabilities	<u>57,800,720</u>	<u>56,983,494</u>
Net Assets		
Invested in capital assets - Net of related debt	492,425,089	461,552,349
Unrestricted	57,107,492	48,279,230
Total net assets	<u>\$ 549,532,581</u>	<u>\$ 509,831,579</u>
Statement of Activities		
Revenues:		
State Aid - Act 51	\$ 61,771,504	\$ 60,133,297
Other state sources	20,571,768	14,055,857
Federal sources	19,546,051	31,992,813
Revenue from county and local governments	9,449,198	10,761,494
Other	7,232,376	6,415,741
Total revenue	118,570,897	123,359,202
Expenses:		
General administration	4,321,827	4,834,454
Departmental operations and maintenance	33,133,549	38,590,107
Nondepartmental	11,534,538	11,259,231
Interest	626,325	668,635
Depreciation	29,253,656	26,117,871
Total expenses	<u>78,869,895</u>	<u>81,470,298</u>
Change in net assets	<u>\$ 39,701,002</u>	<u>\$ 41,888,904</u>

The Road Commission's net assets increased approximately 7.8 percent from \$509,831,579 to \$549,532,581 for the year ended September 30, 2003. This was primarily because capital grants and donations were provided in the current year for capital expenditures that will be recognized in future years as depreciation expense. The investment in capital assets, net of accumulated depreciation and disposals, increased by \$30,872,740 and \$46,741,135 for the years ended September 30, 2003 and 2002, respectively.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

The Road Commission's revenue for the year ended September 30, 2003 decreased approximately 3.9 percent from the prior year total. This decrease was almost entirely due to reduced federal, county, and local governmental revenue representing participation in road construction projects. The road construction activity of the current year was less than that of the preceding year. Also, expenses for the fiscal year ended September 30, 2003 were less than the preceding year by approximately 3.2 percent. This is due to the fact that certain construction and maintenance expenditures have been deferred to the subsequent year.

Financial Analysis of Individual Funds of the Road Commission

The Road Commission currently has two operating funds: the Subdivision Improvement Fund, which accounts for the activity of special assessment districts, and the Road Fund, which accounts for all of the other operating activity of the Road Commission. The reporting of the individual governmental funds focuses on the inflows and outflows of money and the balances left at year end that are available for spending. These funds report using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The individual fund columns provide a detailed short-term view of the Road Commission's general operations and the basic services it provides. Individual fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services.

The Road Fund is used to account for the general operations of the Road Commission. It is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the Road Commission, which are earmarked by law for road and highway purposes. For the year ended September 30, 2003, the fund balance of the Road Fund increased by \$2,343,245. Total revenues were \$113,810,231, and total expenditures were \$111,466,986, which represented decreases from the prior year of 3.7 percent and 11.6 percent in revenues and expenditures, respectively. Both decreases were substantially due to the decrease in the amount of road construction performed during the current year. The size of the next year construction program anticipates the use of funds collected in prior years and is expected to result in a decrease in next year's fund balance.

Budgetary Highlights

Prior to beginning each year, the Road Commission's budget is prepared based upon certain assumptions and facts available at that time. During the year, the Road Commission Board amends its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted. In addition, by policy, the Board reviews and authorizes large expenditures throughout the year.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

The amended Road Fund revenue budget for the year ended September 30, 2003 was \$3,443,522 lower than the original budget, primarily due to the budget adjustments to reflect less participation from other units of government in the Road Improvement Program (RIP). Several times during the year, the RIP budget is amended to more accurately reflect construction activity. These amendments include the related revenue adjustments. The actual revenue recognized during the year ended September 30, 2003 was less than the amended budget by \$9,580,107.

The amended Road Fund expenditure budget for the year ended September 30, 2003 was \$2,604,533 higher than the original budget, primarily due to capital outlay and contracted services expenditures. Each year, the original budget is amended for the prior year's capital outlay, contracted services, and RIP expenditures that were committed to in the prior year but where the goods were not received or services were not performed until the subsequent year. The actual expenditures recognized during the year ended September 30, 2003 were less than the amended budget by \$20,912,963, principally due to this type of expenditure timing difference.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2003 and 2002, the Road Commission had invested \$505,883,937 and \$471,293,449, respectively, in net capital assets. This year's amount represents a net increase (including additions, deletions, and depreciation) of \$34,590,488 or approximately 7.3 percent. The Road Commission added \$64,175,886 to its investment in capital assets during the current year, including \$59,806,374 of infrastructure additions. Depreciation of capital assets is provided for annually over estimated future lives. Infrastructure construction is funded by federal, state, and local contributions, as well as by Road Commission revenues. Capital asset additions for the current and prior year include the following:

	<u>2003</u>	<u>2002</u>
Buildings and storage bins - Including land	\$ 582,588	\$ 437,388
Road equipment	2,955,335	7,531,369
Other equipment	410,509	406,532
Infrastructure - Including land	59,806,374	64,203,326
Brine wells and gravel pits	-	296,894
Construction in progress	421,080	-
	<u>\$ 64,175,886</u>	<u>\$ 72,875,509</u>

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Debt

At September 30, 2003 and 2002, the Road Commission had \$13,850,000 and \$15,825,000, respectively, in outstanding notes payable.

Other long-term obligations include accrued vacation pay and sick leave, as well as reserves for various losses. More detailed information about the Road Commission's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Budget

In its on-going effort to balance its budget, the Michigan state government continues to evaluate various alternatives for shifting state-wide financial resources from one purpose to another. Several of these alternatives may include reallocating current resources from transportation purposes to other uses. Due to the uncertainty involved with these alternatives and with the general statewide economic slowdown, the Road Commission is forced to conservatively forecast a modest 2 percent increase in its MTF revenues for its fiscal 2004 budget.

Overall, the fiscal 2004 budget reflects that the Road Commission's primary revenue source (MTF) is not keeping up with the inflationary increases in its normal operating costs. As a result, next year's budget must include reduced expenditures for road improvement projects and maintenance activities (exclusive of items carried over from 2003). Implicit in next year's budget is that without adequate increases in its MTF revenue, the Road Commission will have diminishing resources for road improvement and maintenance activities.

In January 2004, there was a fire at one of the Road Commission's facilities. The fire destroyed or severely damaged not only the building but also numerous vehicles, pieces of equipment, and the supplies that were in the building at the time of the fire. After consideration of recoverable insurance proceeds, it is not anticipated the fire will have a material effect upon the financial condition of the Road Commission, nor is it expected that operations will be seriously affected. However, the Road Commission does anticipate spending significant funds in excess of the insurance proceeds to replace the lost items with new or upgraded assets.

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 Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

Road Commission for Oakland County

Governmental Funds Balance Sheet/Statement of Net Assets September 30, 2003

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
Assets					
Cash and cash equivalents (Note 3)	\$ 38,784,680	\$ 6,594,294	\$ 45,378,974	\$ -	\$ 45,378,974
Investments (Note 3)	25,225,000	-	25,225,000	-	25,225,000
Receivables:					
Accounts	21,782,261	-	21,782,261	-	21,782,261
Investment income	78,374	-	78,374	-	78,374
Special assessments	-	4,760,556	4,760,556	-	4,760,556
Internal receivables	31,026	(31,026)	-	-	-
Deposits with State on federal construction projects	326,256	-	326,256	-	326,256
Inventory	3,004,348	-	3,004,348	-	3,004,348
Restricted assets (Note 4)	391,152	-	391,152	-	391,152
Other assets	502,443	-	502,443	-	502,443
Capital assets - Net (Note 5):					
Assets being depreciated	-	-	-	400,332,761	400,332,761
Assets not being depreciated - Land	-	-	-	105,551,176	105,551,176
Total assets	\$ 90,125,540	\$ 11,323,824	\$ 101,449,364	\$ 505,883,937	607,333,301
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 7,235,825	\$ 81,186	\$ 7,317,011	\$ -	7,317,011
Advances and deferred revenue	33,362,494	4,760,556	38,123,050	(13,235,727)	24,887,323
Deposits	2,103,289	-	2,103,289	-	2,103,289
Accrued liabilities	4,254,019	-	4,254,019	88,104	4,342,123
Notes payable, due within one year (Note 6)	-	-	-	1,975,000	1,975,000
Notes payable, due in more than one year (Note 6)	-	-	-	11,875,000	11,875,000
Other long-term liabilities (Notes 6 and 8)	-	-	-	5,300,974	5,300,974
Total liabilities	46,955,627	4,841,742	51,797,369	6,003,351	57,800,720
Fund Balances					
Reserved (Note 9)	14,342,595	-	14,342,595	(14,342,595)	-
Unreserved:					
Designated (Note 10)	27,332,772	6,482,082	33,814,854	(33,814,854)	-
Undesignated	1,494,546	-	1,494,546	(1,494,546)	-
Total fund balances	43,169,913	6,482,082	49,651,995	(49,651,995)	-
Total liabilities and fund balances	\$ 90,125,540	\$ 11,323,824	\$ 101,449,364		
Net Assets					
Investment in capital assets - Net of related debt				492,425,089	492,425,089
Unrestricted				57,107,492	57,107,492
Total net assets				\$ 549,532,581	\$ 549,532,581

Road Commission for Oakland County

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended September 30, 2003

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
Revenue					
State aid - Act 51	\$ 61,771,504	\$ -	\$ 61,771,504	\$ -	\$ 61,771,504
Other state sources	19,289,742	-	19,289,742	1,282,026	20,571,768
Federal sources	19,101,314	-	19,101,314	444,737	19,546,051
Revenue from county and local governments	8,589,587	-	8,589,587	859,611	9,449,198
Special assessment revenue	-	3,100,527	3,100,527	(1,755,169)	1,345,358
Interest	832,127	375,511	1,207,638	-	1,207,638
Fees and other revenue	4,225,957	-	4,225,957	453,423	4,679,380
Total revenue	113,810,231	3,476,038	117,286,269	1,284,628	118,570,897
Expenditures					
General administration	5,018,276	-	5,018,276	(696,449)	4,321,827
Central operations	10,100,662	-	10,100,662	(2,384,846)	7,715,816
Engineering department	5,106,967	-	5,106,967	(5,106,967)	-
Traffic department	10,467,170	-	10,467,170	(5,608,943)	4,858,227
Permits and environmental concerns	1,032,443	-	1,032,443	(771,299)	261,144
Maintenance department	22,729,228	-	22,729,228	(2,430,866)	20,298,362
Nondepartmental	13,476,860	-	13,476,860	(1,942,322)	11,534,538
Debt service:					
Principal payments	1,241,507	733,493	1,975,000	(1,975,000)	-
Interest and other	408,080	228,709	636,789	(10,464)	626,325
Depreciation expense	-	-	-	29,253,656	29,253,656
Project expenditures:					
Road improvement program and construction	37,007,132	1,757,214	38,764,346	(38,764,346)	-
Southeast Michigan snow and ice management	116,002	-	116,002	(116,002)	-
Signals	2,878,252	-	2,878,252	(2,878,252)	-
Intelligent transportation systems	1,884,407	-	1,884,407	(1,884,407)	-
Total expenditures	111,466,986	2,719,416	114,186,402	(35,316,507)	78,869,895
Excess of Revenue Over Expenditures/Change in Net Assets	2,343,245	756,622	3,099,867	36,601,135	39,701,002
Fund Balances/Net Assets - October 1, 2002	40,826,668	5,725,460	46,552,128	463,279,451	509,831,579
Fund Balances/Net Assets - September 30, 2003	\$ 43,169,913	\$ 6,482,082	\$ 49,651,995	\$ 499,880,586	\$ 549,532,581

Road Commission for Oakland County

Pension Trust Fund Statement of Plan Net Assets December 31, 2002 (Note 1)

Assets

Cash and short-term investments (Note 3)	\$ 4,227,387
Receivables - Interest and dividends	772,283
Investments (Note 3):	
U.S. government obligations	5,996,439
U.S. agencies obligations	37,549,428
Corporate bonds	30,321,341
Corporate stocks	69,404,166
Other	<u>542,992</u>
Total investments	<u>143,814,366</u>
Total assets	148,814,036

Liabilities

Accounts payable - Brokers - Net	542,526
Securities lending collateral payable	<u>16,817,141</u>
Total liabilities	<u>17,359,667</u>

Net Assets Held in Trust for Pension Benefits \$ 131,454,369

Road Commission for Oakland County

Pension Trust Fund Statement of Changes in Plan Net Assets December 31, 2002 (Note 1)

Additions

Investment income (loss):	
Interest and dividends	\$ 5,517,972
Net depreciation in fair value of investments	(18,304,567)
Less investment expenses	<u>(869,804)</u>
Net investment loss	(13,656,399)
Employer contributions	<u>1,573,200</u>
Total additions - Net of investment loss	(12,083,199)

Deductions - Benefit payments 5,354,734

Net Decrease (17,437,933)

Net Assets Held in Trust for Pension Benefits

January 1, 2002	<u>148,892,302</u>
December 31, 2002	<u>\$ 131,454,369</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note I - Significant Accounting Policies

The Road Commission for Oakland County, Michigan (the "Road Commission") is a governmental agency, legally titled the Board of County Road Commissioners of the County of Oakland, which is responsible for the maintenance and construction of the county road system in the county. The Road Commission's financial statements will be included in the basic financial statements of the County of Oakland, Michigan.

All funds of the Road Commission have a September 30 year end except the Retirement System, which is on a calendar year reporting basis. The September 30, 2003 financial statements of the Road Commission include certain Retirement System financial data as previously reported at December 31, 2002, the latest available financial statements of the Retirement System.

The accounting policies of the 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:

In accordance with GASB 34 definitions, the Road Commission has summarized its September 30, 2003 revenue into the following program revenue categories:

Charges for services	\$ 16,948,056
Operating grants and contributions	64,437,767
Capital grants and contributions	<u>37,185,074</u>
Total revenue	<u>\$ 118,570,897</u>

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been stated in conjunction with the government-wide financial statements.

The major individual governmental fund is reported as a separate column in the fund financial statement.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized as the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

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.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Commission reports the following major governmental fund:

The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note I - Significant Accounting Policies (Continued)

The Road Commission also reports the following additional funds:

The Subdivision Improvements Fund (a nonmajor governmental fund) is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

The Pension Trust Fund is used to account for assets held by the Road Commission in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Retirement System is a Pension Trust Fund.

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

Accounts Receivable - Accounts receivable are primarily amounts due from other units of government. Accounts receivable at September 30, 2003 are recorded net of approximately \$3,696,000 of advances and allowances and include approximately \$3,450,000 related to an advance-construct construction project for which federal funds for payment are not expected to become available until after 2007.

Inventory - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Road Commission for Oakland County

Notes to Financial Statements
September 30, 2003

Note I - Significant Accounting Policies (Continued)

Depreciation charges in 2003 totaled \$29,253,656, based on the following methods and useful lives:

	Methods	Useful Lives - Years
Buildings	Straight-line	45-50
Salt storage bins	Units of production	Various
Road equipment	Sum of years - Digits	5-8
Other equipment	Sum of years - Digits and straight-line	5-10
Brine wells and gravel pits	Straight-line and units of production	Various
Infrastructure:		
Roads	Straight-line	5-30
Other	Straight-line	10-50

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Other accounting policies are disclosed in other notes to the financial statements.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 49,651,995
Capital assets used in governmental activities are not financial resources and are not reported in the funds	505,883,937
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	4,760,556
Federal, state, and local receivables not collected within 60 days of year end are not available to pay for current year expenditures	8,475,171
Long-term notes payable that are not due and payable in the current period and are not reported in the funds	(13,850,000)
Long-term portion of compensated absences liability and provision for uninsured workers' compensation and general liability losses that are not reported in the funds	(5,300,974)
Accrued interest payable is not reported in the funds	<u>(88,104)</u>
Government-wide net assets	<u>\$ 549,532,581</u>

Road Commission for Oakland County

Notes to Financial Statements
September 30, 2003

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

Net change in fund balances - Total governmental funds	\$ 3,099,867
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	34,590,488
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(1,755,169)
In the governmental funds, federal, state, and local revenues not collected within 60 days of year end are not available to pay for the current year expenditures, whereas in the statement of activities, revenue is recognized when earned	2,586,526
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,975,000
Changes in accumulated sick and vacation pay, as well as estimated general liability and workers' compensation claims, are recorded when earned in the statement of activities	(806,174)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	<u>10,464</u>
Change in net assets of governmental activities	<u>\$ 39,701,002</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note 3 - Deposits and Investments

The Road Commission's deposits and investments at September 30, 2003 are included on the balance sheet under the following classifications:

	Cash and Cash Equivalents	Investments	Restricted Assets (Note 4)	Total
Governmental funds:				
Deposits	\$ 35,667,240	\$ 25,225,000	\$ 391,152	\$ 61,283,392
Investments	9,639,135	-	-	9,639,135
Petty cash and cash on hand	72,599	-	-	72,599
Total governmental funds	<u>\$ 45,378,974</u>	<u>\$ 25,225,000</u>	<u>\$ 391,152</u>	<u>\$ 70,995,126</u>
Pension Trust Fund:				
Deposits*	\$ 480,600	\$ -	\$ -	\$ 480,600
Investments*	3,746,787	143,814,366	-	147,561,153
Total Pension Trust Fund	<u>\$ 4,227,387</u>	<u>\$ 143,814,366</u>	<u>\$ -</u>	<u>\$ 148,041,753</u>

* Amount represents balances in the Employees' Retirement System as of December 31, 2002.

Deposits

The above governmental fund deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$63,029,291. Of that amount, \$1,321,906 was covered by federal depository insurance and \$61,707,385 was uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Road Commission evaluates each financial institution with which it deposits Road Commission funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Mutual fund investments included in other investments are registered with the Securities and Exchange Commission. Each of the Retirement System's six investment manager's accounts is insured by the Securities Investors Protection Act, up to \$500,000 to replace cash (up to \$100,000), stocks, or bonds held by the broker-dealer.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note 3 - Deposits and Investments (Continued)

Investments

The Road Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Retirement System is also authorized by Michigan Public Act 55 of 1982, as amended by Public Act 485 of 1996, to invest in certain repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local governmental obligations, and certain other specified investment vehicles.

The Road Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at September 30, 2003 (and at December 31, 2002 with respect to the Retirement System). Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Road Commission or its agent in the Road Commission's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Road Commission's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the Road Commission's name

All of the following investments are included in Risk Category 2, with the exception of the bank investment pools, which are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pool shares.

Road Commission for Oakland County

Notes to Financial Statements
September 30, 2003

Note 3 - Deposits and Investments (Continued)

	Carrying Value (Fair Value)
Governmental funds:	
Categorized investments - Commercial paper	\$ 2,400,288
Bank investment pools	<u>7,238,847</u>
Total governmental funds investments	<u>\$ 9,639,135</u>
Pension Trust Fund:	
Categorized investments:	
U.S. government obligations	\$ 5,996,439
U.S. agency obligations	37,549,428
Corporate bonds	30,321,341
Corporate stocks	69,404,166
Other	<u>542,992</u>
Total categorized investments	143,814,366
Bank investment pools	<u>3,746,787</u>
Total pension trust fund investments*	<u>\$ 147,561,153</u>

* Amounts represent balances in the Employees' Retirement System as of December 31, 2002.

Regarding the Retirement System's investments; state statutes and board of trustees' policies permit participation of the Retirement System in securities lending transactions. The Retirement System, via a securities lending authorization agreement, authorized the custodial bank to lend the Retirement System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the year ended December 31, 2002, the custodial bank, at the direction of the Retirement System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least one hundred percent (100 percent) of the market value of the loan securities.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note 3 - Deposits and Investments (Continued)

The Retirement System did not impose any restrictions during December 31, 2002 on the amount of the loans the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during December 31, 2002. There were no losses to the Retirement System or the custodial bank during December 31, 2002 resulting from default of the borrowers.

During December 31, 2002, the Retirement System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders, in a pool. The average duration of such investment pool as of December 31, 2002 was 121 days. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the fair values of the underlying securities on loan of the Retirement System as of December 31, 2002 were \$16,817,141 and \$16,332,866, respectively.

Included in the Employees' Retirement System's investments at December 31, 2002 are the following securities:

- Approximately \$22,100,900 of collateralized mortgage obligations are held in government agencies. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. Approximately \$4,401,600 of the government agency-held CMOs are guaranteed agency debt. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$3,819,200 of asset-backed securities are included in corporate bonds. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending upon the type of assets being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note 4 - Restricted Assets

Restricted assets in the Road Fund at September 30, 2003 consist of cash and cash equivalents in the amount of \$391,152. These assets, representing unspent bond proceeds, are restricted for construction.

Note 5 - General Fixed Assets and Depreciation

A summary of changes in general fixed assets follows:

	Balance October 1, 2002	Increases	Decreases	Balance September 30, 2003
Governmental Activities				
Capital assets not being depreciated -				
Land:				
Infrastructure	\$ 98,361,516	\$ 5,460,894	\$ -	\$ 103,822,410
Other	1,658,588	70,178	-	1,728,766
Subtotal	100,020,104	5,531,072	-	105,551,176
Capital assets being depreciated:				
Buildings and storage bins	11,879,791	512,410	34,541	12,357,660
Road equipment	40,838,706	2,955,335	2,817,841	40,976,200
Other equipment	5,821,118	410,509	1,024,610	5,207,017
Infrastructure	548,372,825	54,345,480	-	602,718,305
Brine wells and gravel pits	1,390,879	-	320,057	1,070,822
Construction in progress	-	421,080	-	421,080
Subtotal	608,303,319	58,644,814	4,197,049	662,751,084
Less accumulated depreciation for:				
Buildings and storage bins	(6,869,192)	(369,383)	(34,542)	(7,204,033)
Road equipment	(28,429,486)	(4,901,293)	(2,787,253)	(30,543,526)
Other equipment	(3,544,887)	(408,331)	(1,020,348)	(2,932,870)
Infrastructure	(197,613,189)	(23,502,465)	-	(221,115,654)
Brine wells and gravel pits	(573,220)	(72,184)	(23,164)	(622,240)
Subtotal	(237,029,974)	(29,253,656)	(3,865,307)	(262,418,323)
Net capital assets being depreciated	371,273,345	29,391,158	331,742	400,332,761
Net capital assets	\$ 471,293,449	\$ 34,922,230	\$ 331,742	\$ 505,883,937

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note 6 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Road Commission as of September 30, 2003:

	Number of Issues	Interest Rate (Percent)	Maturing Through	Principal Outstanding
Notes Payable				
1999 Michigan Transportation Fund revenue note*	1	4.25-4.75	2009	\$ 5,850,000
2001 Michigan Transportation Fund revenue note	1	3.5-4.0	2011	<u>8,000,000</u>
Total notes payable				13,850,000
Other Long-term Liabilities				
Long-term portion of provision for uninsured losses				2,032,000
Long-term portion of compensated absences liability				<u>3,268,974</u>
Total other long-term liabilities				<u>5,300,974</u>
Total long-term debt				<u>\$ 19,150,974</u>

* While these notes will be paid by the Road Fund, it is intended that the Subdivision Improvements Fund will provide the Road Fund with approximately 75 percent of the required debt service funding. At September 30, 2003, approximately \$4,760,000 of special assessment receivables were recorded in the Subdivision Improvements Fund.

The compensated absences liability represents the estimated liability to be paid governmental fund-type employees under the Road Commission's sick and vacation pay policy, net of the portion that is estimated will be paid currently (which has been recorded as a liability in the Road Fund). Under the Road Commission's policy, employees earn sick and vacation time based on time of service with the Road Commission.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note 6 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2003:

	Balance October 1, 2002	Increase (Reduction)	Balance September 30, 2003	Due Within One Year
1999 Michigan Transportation Fund revenue note	\$ 6,825,000	\$ (975,000)	\$ 5,850,000	\$ 975,000
2001 Michigan Transportation Fund revenue note	9,000,000	(1,000,000)	8,000,000	1,000,000
Long-term portion of provision for uninsured losses	2,347,000	(315,000)	2,032,000	-
Long-term portion of compensated absences	2,147,800	1,121,174	3,268,974	-
Total	<u>\$ 20,319,800</u>	<u>\$(1,168,826)</u>	<u>\$ 19,150,974</u>	

Debt Service Requirements

The annual principal and interest requirements for the years ending September 30 through maturity for all debt outstanding (excluding the liabilities for compensated absences and uninsured losses) are as follows:

Years Ending September 30	Principal	Interest	Total
2004	\$ 1,975,000	\$ 560,750	\$ 2,535,750
2005	1,975,000	484,312	2,459,312
2006	1,975,000	406,900	2,381,900
2007	1,975,000	328,512	2,303,512
2008	1,975,000	246,650	2,221,650
2009-2011	<u>3,975,000</u>	<u>283,813</u>	<u>4,258,813</u>
Total	<u>\$ 13,850,000</u>	<u>\$ 2,310,937</u>	<u>\$ 16,160,937</u>

Interest

Gross interest expense of the Road Commission for the year ended September 30, 2003 approximated \$636,200, of which approximately \$228,000 related to the Subdivision Improvements Fund and the balance to the Road Fund.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note 7 - Contingent Liabilities

The Road Commission has been named defendant in numerous accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program (see Note 8). It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's liability for these matters have been recorded as a liability in the Road Fund at September 30, 2003.

There are also several nonaccident liability and condemnation lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's liability for these matters have been recorded in the Road Fund at September 30, 2003.

The Road Commission has received and is receiving federal highway grants through the Michigan Department of Transportation for the Integrated Transportation System (ITS) project. These federal grants have certain compliance provisions including a requirement for nonfederal participation in project costs (matching requirement) and a responsibility for the Road Commission to eventually audit the finalized third-party costs for goods and services that have either been charged to certain project contracts or contributed to the project.

The effect on the recorded revenue and expenditures of the ITS projects, if any, that may result from the Road Commission's audits of final third-party contract and contribution costs cannot be determined at this time. However, it is the opinion of the management of the Road Commission that such amounts and the resultant effects on fund balance, if any, would not be material.

Note 8 - Insurance Programs

The Road Commission is exposed to various risks of loss related to general liability claims, property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission is uninsured for these claims within certain limits. The details for certain of these risks are discussed below.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note 8 - Insurance Programs (Continued)

General Liability Claims

The Road Commission is partially uninsured for general liability claims. Under the plan, the Road Commission is liable for losses up to a retention amount and for the losses in excess of the maximum insurance coverage. Information for the last 10 years is as follows:

Contract Years Ended September 30	Retention		Maximum Insurance Coverage (Per Occurrence and in Aggregate Per Fiscal Year)
	Limit Per Occurrence	Aggregate Limit Per Year (All Cases)	
1994-2000	\$ 1,000,000	\$ 4,000,000	\$ 9,000,000
2001-2003	1,000,000	4,000,000	15,000,000

Workers' Compensation Claims

The Road Commission is partially uninsured for workers' compensation claims. Under the plan, the Road Commission is liable for losses up to a retention amount and for losses in excess of the maximum insurance coverage. Information for the last 10 years is as follows:

Fiscal Year of Occurrence	Retention		Coverage (Per Occurrence and in Aggregate)
	Limit Per Occurrence	Approximate Aggregate Limit Per Year	
1994	\$ 300,000	No aggregate coverage	Statutory limitation
1995	350,000	\$1,258,000	Statutory
1996-2000	350,000	No aggregate coverage	Statutory
2001-2003	500,000	No aggregate coverage	Statutory

Road Commission for Oakland County

Notes to Financial Statements
September 30, 2003

Note 8 - Insurance Programs (Continued)

Medical Claims

The Road Commission is partially uninsured for health care coverage provided to employees (including dependents and retired employees and their spouses). Under the program, the Road Commission is liable for claims up to a retention amount per employee. For the last 11 annual contract periods (September 1, 1993 through August 31, 2004), the retention limit per employee is \$75,000 with no aggregate limitation.

Estimated Liabilities

Management has established estimates of the liability for the asserted claims and lawsuits and the unasserted claims related to all of the above-mentioned matters and has recorded the estimated liability at September 30, 2003. However, with respect to unasserted claims, it is not currently possible for management or legal counsel to determine that the ultimate liability, if any, related to these matters will not differ materially from the amounts currently provided.

Changes in the estimated liability for the year ended September 30, 2003 are as follows:

	General Liability	Workers' Compensation	Medical	Total
Estimated liability - October 1, 2001	\$ 3,600,000	\$ 1,000,000	\$ 340,000	\$ 4,940,000
Estimated claims incurred, including changes in estimates	355,633	772,930	7,254,143	8,382,706
Claim payments, including related legal and administrative expenses	<u>(167,745)</u>	<u>(854,930)</u>	<u>(7,134,143)</u>	<u>(8,156,818)</u>
Estimated liability - September 30, 2002	3,787,888	918,000	460,000	5,165,888
Estimated claims incurred, including changes in estimates	1,695,091	898,381	7,189,400	9,782,872
Claim payments, including related legal and administrative expenses	<u>(2,382,979)</u>	<u>(82,381)</u>	<u>(7,249,400)</u>	<u>(9,714,760)</u>
Estimated liability - September 30, 2003	<u>\$ 3,100,000</u>	<u>\$ 1,734,000</u>	<u>\$ 400,000</u>	<u>\$ 5,234,000</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note 8 - Insurance Programs (Continued)

	General Liability	Workers' Compensation	Medical	Total
Estimated current portion - included in accrued liabilities in the Road Fund	\$ 2,400,000	\$ 402,000	\$ 400,000	\$ 3,202,000
Estimated long-term portion	<u>700,000</u>	<u>1,332,000</u>	<u>-</u>	<u>2,032,000</u>
Total estimated liability	<u>\$ 3,100,000</u>	<u>\$ 1,734,000</u>	<u>\$ 400,000</u>	<u>\$ 5,234,000</u>

During 2003, the expenditures recorded in the Road Fund under the general liability (including nonaccident claims and approximately \$429,815 of insurance costs), workers' compensation (including claims and approximately \$91,500 of insurance costs), and health care plans (including health care administrative expenses) were approximately \$2,124,900, \$989,900, and \$7,189,400, respectively.

The approximate total cost of risk management for the year was \$9,989,200, consisting of the amounts recorded in the Road Fund totaling \$10,304,200 as detailed in the preceding paragraph less \$315,000 recorded as a decrease of long-term debt obligations (see Note 6).

Note 9 - Reserved Fund Balances

Fund balances have been reserved for the following purposes:

	Governmental Fund - Road Fund	Pension Trust Fund
Unspent construction bond proceeds	\$ 391,152	\$ -
Construction	9,501,172	-
Capital outlay and contracted services	4,450,271	-
Employee retirement benefits	<u>-</u>	<u>131,454,369</u>
Total	<u>\$ 14,342,595</u>	<u>\$ 131,454,369</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2003

Note 10 - Designated Fund Balances

Fund balances of the Road Commission's governmental funds have been designated for the following purposes:

	Road Fund	Subdivision Improvement Fund	Total
Subsequent year's budget	\$ 2,527,450	\$ -	\$ 2,527,450
Future years' capital acquisitions and maintenance projects	9,000,000	-	9,000,000
Future years' tri-party construction participation	3,500,000	-	3,500,000
Construction	3,000,000	-	3,000,000
Inventory	3,004,348	-	3,004,348
Long-term portion of provision for:			
Uninsured losses	2,032,000	-	2,032,000
Compensated absences	3,268,974	-	3,268,974
Facility replacement contingency	1,000,000	-	1,000,000
Special assessment construction	-	6,482,082	6,482,082
Total	<u>\$ 27,332,772</u>	<u>\$ 6,482,082</u>	<u>\$ 33,814,854</u>

Note 11 - Budget Information

The annual budget is prepared by the Road Commission management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2003 is approximately \$15,000,000. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund and Subdivision Improvements Fund budgets as adopted by the Board of Road Commissioners is included in the supplementary information.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note 12 - Postemployment Benefits

The Road Commission provides health care benefits to all full-time employees and life insurance benefits to duty disability employees upon retirement, pursuant to agreements with various collective bargaining units or other action of the Oakland County Board of Road Commissioners. Currently, approximately 490 retirees and their spouses are eligible. The Road Commission includes retirees and their spouses in its health care plan, with no contribution required by the participant in most circumstances. Expenditures for postemployment benefits are recognized as the life insurance premiums and medical costs become due; during the year, this amounted to approximately \$2,246,000. The medical expenditures for retirees noted above are included in the Road Commission's total health care expenditures disclosed in Note 8.

Note 13 - Defined Benefit Pension Plan

Plan Description

The Road Commission contributes to the Road Commission for Oakland County Retirement System (the "System"), which is the administrator of a single-employer public employees' retirement system that covers substantially all employees of the Road Commission. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The System currently requires no employee contribution. The obligation of the Road Commission to contribute to and maintain the System for these employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of 408 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 544 current active employees.

A complete analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability is reported in the Road Commission's Retirement System Financial Report as of December 31, 2002. A copy of this report may be obtained from the Road Commission's administrative office, located at 31001 Lahser Road, Beverly Hills, MI 48025.

Road Commission for Oakland County

Notes to Financial Statements
September 30, 2003

Note 13 - Defined Benefit Pension Plan (Continued)

Significant Accounting Policies

The System is included in the Road Commission's financial statements as a Pension Trust Fund. At December 31, 2002, the assets of the Pension Trust Fund included no securities of or loans to the Road Commission or any other related party and there were no investments in any one organization (other than the U.S. government and U.S. government guaranteed obligations) in excess of 5 percent of net assets available for benefits. Please refer to Note 1 for further significant accounting policies.

Annual Pension Cost - For the year ended December 31, 2002, the Road Commission's annual pension cost of \$1,573,200 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of actuarial valuations at December 31, 2000 and 2001, using the individual entry age normal cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.0 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2002 was 17 years.

Reserves - As of December 31, 2002, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 353,718
Reserve for retired benefit payments	56,157,715

Three-year Trend Information

	2000	2001	2002
Annual pension cost (APC)	\$ 2,494,250	\$ 2,235,000	\$ 1,573,200
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2003**

Note 14 - Construction in Process

Estimated future contract cost obligations related to completion of Road Fund construction projects in process at September 30, 2003, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$10,500,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Note 15 - Subsequent Event

In January 2004, there was a fire at one of the Road Commission's facilities. The fire destroyed or severely damaged not only the building but also numerous vehicles, pieces of equipment, and the supplies that were in the building at the time of the fire. After consideration of recoverable insurance proceeds, it is not anticipated the fire will have a material effect upon the financial condition of the Road Commission, nor is it expected that operations will be seriously affected. However, the Road Commission does anticipate spending significant funds in excess of the insurance proceeds to replace the lost items with new or upgraded assets.

Supplementary Information

Road Commission for Oakland County

Required Supplementary Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2003

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 60,634,000	\$ 60,634,000	\$ 61,771,504	\$ 1,137,504
Other state sources	18,346,402	19,143,666	19,289,742	146,076
Federal sources	28,717,051	30,412,667	19,101,314	(11,311,353)
Revenue from county and local governments	16,411,927	10,736,361	8,589,587	(2,146,774)
Interest on investments	500,000	599,164	832,127	232,963
Fees and other revenue	2,224,480	1,864,480	4,225,957	2,361,477
Total revenue	126,833,860	123,390,338	113,810,231	(9,580,107)
Expenditures				
General administration:				
Board of County Road Commissioners	135,319	135,319	131,409	3,910
Managing director	814,926	920,516	809,965	110,551
Planning and development	1,359,196	2,040,499	1,685,863	354,636
Citizens' services	311,650	318,348	311,767	6,581
Finance department	857,705	911,173	877,631	33,542
Legal department	678,651	692,600	665,434	27,166
Human Resources department	538,431	562,453	536,207	26,246
Total general administration	4,695,878	5,580,908	5,018,276	562,632
Central operations				
Engineering department	10,173,422	11,010,384	10,100,662	909,722
Traffic department	5,434,291	5,555,059	5,106,967	448,092
Permits and environmental concerns	10,873,817	12,577,523	10,467,170	2,110,353
Maintenance department	1,104,464	1,222,238	1,032,443	189,795
Nondepartmental	20,959,804	25,074,951	22,729,228	2,345,723
Debt service	16,813,415	16,203,515	13,476,860	2,726,655
	1,664,237	1,650,237	1,649,587	650
Total expenditures before project expenditures	71,719,328	78,874,815	69,581,193	9,293,622
Project expenditures:				
Road improvement program and construction	49,120,788	40,555,625	37,007,132	3,548,493
Southeast Michigan snow and ice management	2,435,000	2,435,000	116,002	2,318,998
Signals	5,742,300	9,029,239	2,878,252	6,150,987
Intelligent transportation systems	758,000	1,485,270	1,884,407	(399,137)
Total project expenditures	58,056,088	53,505,134	41,885,793	11,619,341
Total expenditures	129,775,416	132,379,949	111,466,986	20,912,963
Excess of Revenue Over (Under) Expenditures	(2,941,556)	(8,989,611)	2,343,245	11,332,856
Fund Balance - October 1, 2002	40,826,668	40,826,668	40,826,668	-
Fund Balance - September 30, 2003	\$ 37,885,112	\$ 31,837,057	\$ 43,169,913	\$ 11,332,856

Road Commission for Oakland County

Other Supplementary Information Budgetary Comparison Schedule - Subdivision Improvement Fund Year Ended September 30, 2003

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Special assessment revenue	\$ 2,075,000	\$ 2,075,000	\$ 3,100,527	\$ 1,025,527
Interest	<u>400,000</u>	<u>400,000</u>	<u>375,511</u>	<u>(24,489)</u>
Total revenue	2,475,000	2,475,000	3,476,038	1,001,038
Expenditures				
Debt service	971,975	971,975	962,202	9,773
Project expenditures - Road improvement program and construction	<u>2,436,950</u>	<u>2,436,950</u>	<u>1,757,214</u>	<u>679,736</u>
Total expenditures	<u>3,408,925</u>	<u>3,408,925</u>	<u>2,719,416</u>	<u>689,509</u>
Excess of Revenue Over (Under) Expenditures	(933,925)	(933,925)	756,622	1,690,547
Fund Balance - October 1, 2002	<u>5,725,460</u>	<u>5,725,460</u>	<u>5,725,460</u>	<u>-</u>
Fund Balance - September 30, 2003	<u>\$ 4,791,535</u>	<u>\$ 4,791,535</u>	<u>\$ 6,482,082</u>	<u>\$ 1,690,547</u>

December 30, 2003

Board of County Road Commissioners
Road Commission for Oakland County
31003 Lahser Road
Beverly Hills, MI 48025

Dear Board Members,

We have recently completed our audit of the financial statements of the Road Commission for Oakland County for the year ended September 30, 2003. In conjunction with our audit, we offer the following comments and recommendations for your consideration:

CASH ACCOUNT RECONCILIATIONS

During the course of our audit, we noted that the bank reconciliation procedures had not been performed during the year on the two principal bank disbursing accounts of the Road Commission. Additionally, we noted that the monthly reconciliation of the Cash and Investment Account held by the County was not completely reconciled to the Road Commission's general ledger balance. We believe that the accurate and timely reconciliation of these accounts is a cornerstone of any strong internal control system. We understand that the staff of the Road Commission is in the process of completing these activity reconciliations for the past year and is working to return the monthly reconciliation process to a current status.

NON-MAINTENANCE WORK ORDER BILLINGS

During the course of our testing, we noted that there were a substantial number of old outstanding invoices that had not been collected, or otherwise resolved. In order to improve the cash flow of the Road Commission, we would encourage timely follow-up to resolve any apparent billing questions and collect the amounts appropriately due.

CONSTRUCTION RELATED CONTRACTS

During our testing of construction project activity, we noticed a number of instances where contracts, particularly with other units of government, were not yet executed, unavailable, or not timely executed. We understand that there are instances where practical considerations require that projects begin prior to all contracts being finalized. However, the timely execution of contracts helps ensure the protection of the Road Commission's assets, as well as allows for timely and accurate billings and revenue recognition.

CONSTRUCTION RELATED CONTRACTS (Continued)

Similarly, we noted instances where contracts for contracted (or sub-contracted) services were not submitted to MDOT for their prior approval, consistent with their standard practices. The lack of prior sub-contract approval, at a minimum, delays the Road Commission's ability to obtain federal funds, and could result in federal funds not being obtained.

It should be noted that in many of the instances addressed in the two preceding paragraphs, the contracts in question were initiated in years prior to the current year's actual construction activity. It is our understanding that, at the time of project initiation, personnel changes contributed to a lack of continuity with respect to the standing of all of MDOT's contractual requirements. We understand that Road Commission staff currently have a more comprehensive appreciation for MDOT's contractual requirements, and that considerable attention has been paid to the entire contract documentation area in the recent past. We believe that additional benefits can accrue from continued attention to this area.

FEDERAL COMPLIANCE MATTERS

Because we have been requested to test certain items in the Spring of each year, we have not yet completed our single audit of federal program activity for fiscal year ended September 30, 2003. However, in the testing that has been performed, in addition to the contractual matters discussed in the three preceding paragraphs, we noted the following additional matters. Both issues are related to the same relatively unusual construction project involving another unit of government:

Due to an apparent misunderstanding of contract requirements, MDOT was invoiced for federal reimbursement in two instances where costs were outside the scope of the contract with MDOT. The first instance appears to be a misunderstanding of the type of allowable costs. The second instance appears to be a misunderstanding of the composition of the cost paid by the Road Commission and submitted to MDOT for federal reimbursement due to the lack of supporting documentation being submitted with the invoices sent by the other agency to the Road Commission for payment.

Secondly, certain costs paid by the Road Commission to the other agency and submitted to MDOT for federal reimbursement relate to services contracted (sub-contracted) by the billing agency to third-parties without the prior approval of MDOT. We understand that the staffs of the Road Commission and the billing agency are in the process of providing MDOT with supporting documentation that may allow MDOT to view these as qualifying costs. The Road Commission staff has reason to believe that a favorable determination of this matter can be obtained. However, until such time as these costs are formally approved, they are viewed as questioned costs for federal reporting purposes.

It should be noted that the contract circumstances and problematic activity addressed in the prior two paragraphs, relate to a construction project that was initiated in a prior year. As previously mentioned, a broader understanding of procedural requirements, and an increased focus on contractual compliance matters on the part of Road Commission staff should help prevent recurrence of these situations.

December 30, 2003

REPORTABLE CONDITIONS

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, 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.

In planning and performing our audit of the financial statements of the Road Commission for Oakland County for the year ended September 30, 2003, we considered the Road Commission's internal controls 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 controls. The purpose of an audit is to report on the financial statements, rather than provide assurance on the internal control structure; however, we would consider the items mentioned under the "Cash Account Reconciliations", "Construction Related Contracts" and "Federal Compliance Matters" sections of this letter to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

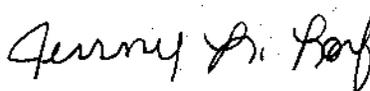
We would like to thank the Road Commission personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, LLP



Mark E. Chmielewski



Jenny L. Lorf