

# **Road Commission of Macomb County**

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**Financial Report**  
**September 30, 2009**

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# Road Commission of Macomb County

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## Independent Auditor's Report

To the Board of County Road Commissioners  
Road Commission of Macomb County

We have audited the accompanying financial statements of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County (a component unit of Macomb County, Michigan) (the "Road Commission") as of and for the year ended September 30, 2009, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the Road Fund (the Road Commission's only major fund), the aggregate remaining fund information of the Road Commission of Macomb County at September 30, 2009, the respective changes in financial position and cash flows, and the respective budgetary comparison for the Road Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is 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.

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To the Board of Road Commissioners  
Road Commission of Macomb County

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010 on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read with this report in considering the results of our audit.

*Plante & Moran, PLLC*

January 13, 2010

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# Road Commission of Macomb County

## Management's Discussion and Analysis

As management of the Road Commission of Macomb County (the "Road Commission"), we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended September 30, 2009.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding of the Road Commission's basic financial statements. These statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The first two components are presented together on the governmental funds balance sheet/statement of net assets and the statement of revenues, expenditures, and changes in fund balances/statement of activities.

### Financial Analysis

Net assets enable governmental agencies to determine their overall fiscal position. The Road Commission of Macomb County's net assets increased by less than 1.4 percent from a year ago, increasing from \$763.2 million to \$773.8 million. This increase was due primarily to an increase in the Road Commission's cash and investments. Several large construction projects that were budgeted in fiscal year 2009 have been carried forward to fiscal year 2010. As a result, cash and investments were higher than anticipated. Although this increased the cash and investments in fiscal year 2009, these funds are earmarked for the delayed construction projects and the funds will be used in fiscal year 2010. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of September 30, 2009 to the prior year.

### Condensed Statement of Net Assets

	2009	2008
<b>Assets</b>		
Current assets	\$ 73.1	\$ 68.6
Capital and other noncurrent assets	712.9	706.9
Total assets	786.0	775.5
<b>Liabilities</b>		
Current liabilities	10.0	9.9
Long-term liabilities outstanding	2.2	2.4
Total liabilities	12.2	12.3
<b>Net Assets</b>		
Invested in capital assets	711.5	706.9
Unrestricted	62.3	56.3
Total net assets	<u>\$ 773.8</u>	<u>\$ 763.2</u>

# Road Commission of Macomb County

## Management's Discussion and Analysis (Continued)

Net capital assets increased from \$706.9 million in fiscal year 2008 to \$711.5 million in fiscal year 2009. This increase was a result of new infrastructure being added. Unrestricted net assets, which finance the day-to-day operations of road activity and the future growth of Macomb County for infrastructure, were \$62.3 million at September 30, 2009. This amount increased approximately 10.7 percent from last year's unrestricted net assets of \$56.3 million.

The following table shows the changes in net assets (in millions of dollars) as of September 30, 2009 and the prior year:

### Condensed Statement of Activities

	2009	2008
<b>Revenue</b>		
State aid	\$ 37.6	\$ 38.3
Federal sources	22.2	13.0
Local and other sources	13.4	15.5
Land and roads released from developers	2.7	7.3
Total revenue	75.9	74.1
<b>Expenses</b>		
Maintenance and equipment	14.1	15.2
Administrative	14.6	17.3
Depreciation	36.6	36.2
Total expenses	65.3	68.7
<b>Increase in Net Assets</b>	<b>\$ 10.6</b>	<b>\$ 5.4</b>

### Statement of Activities

The Road Commission's total revenue increased from the prior year. This increase was primarily due to the increase in federal sources. Expenses decreased approximately \$3.4 million over last year. This decrease was seen in the maintenance and equipment as well as the administrative line. Overall, net assets increased \$10.6 million from the prior year.

# Road Commission of Macomb County

## Management's Discussion and Analysis (Continued)

### Road Fund Budgetary Highlights

Prior to beginning each new fiscal year, the Road Commission of Macomb County's budget is prepared based upon certain assumptions and facts available at that time. Throughout the year, the Road Commission's board amends the 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, the board reviews and authorizes expenditures and capital equipment purchases throughout the year. The Road Commission amended its 2009 budget on several occasions during the year to reflect changes in equipment expense, maintenance expense, and status changes in budgeted construction projects. Final expenditures were \$40.7 million lower than the original budget due primarily to changes in construction projects and cost-saving measures that were implemented throughout the year. The Road Commission of Macomb County has made great efforts to reduce staffing and benefit costs through attrition. The actual revenues for fiscal year 2009 were also lower than the budgeted amount. With several construction projects being rolled over to fiscal year 2010, the revenue sharing on these projects will also be recognized in 2010. The Road Commission secured construction contracts of approximately \$33.7 million, and actual expenditures on these contracts were less than what was budgeted.

### Capital Assets

The Road Commission had \$711.5 million in net capital assets at the end of the fiscal year. This amount represents a net increase of \$4.6 million from the previous year. The Road Commission added over \$41.9 million to its investment in capital assets during the current year, including approximately \$36.7 million of infrastructure additions. The recorded amount of the infrastructure assets net of depreciation contained in this report is \$501.8 million and \$499.3 million for fiscal years 2009 and 2008, respectively. The infrastructure will continue to be the largest asset class.

### Economic Factors and Next Year's Budget

Reductions in revenue sharing will directly affect the local units of government. This will, in turn, affect the amount of funds the local units will have available to participate in road projects. In addition, the Road Commission of Macomb County experienced a decrease of over \$1.48 million in Michigan Transportation Funds (MTF) as compared to fiscal year 2008. This represents a 4.0 percent decrease in funding. MTF dollars are the main source of income to cover operating expenses of the Road Commission, including all road maintenance expenses and the Road Commission's share of construction expense. MTF revenues are projected to decrease an additional 5.0 percent in fiscal year 2010. Without adequate increases in MTF revenue and revenue sharing, the Road Commission of Macomb County has diminishing resources for road improvements and maintenance activities. This decrease will directly impact the number of road projects that can be undertaken, as well as the level of maintenance work the Road Commission of Macomb County can provide. The Road Commission continues to face challenging financial times. Revenues and expenditures will be monitored throughout the year to assure fiscal responsibility.

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# **Road Commission of Macomb County**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the Road Commission's Management**

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Road Commission of Macomb County, Michelle M. Mykytiak, finance director. For more specific information regarding construction projects, contact Robert Hoepfner, county highway engineer.

# Road Commission of Macomb County

	Major Fund - Road	Nonmajor Fund Capital Projects	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 4)	\$ 46,570,860	\$ 2,960,119	\$ 49,530,979
Receivables:			
State of Michigan	7,205,271	-	7,205,271
Construction accounts receivable	360,558	-	360,558
Accrued interest receivable	152,850	-	152,850
Other	708,121	-	708,121
Current portion of note receivable	-	-	-
Inventory	4,043,905	-	4,043,905
Surplus properties	246,539	-	246,539
Prepaid costs and other	918,902	-	918,902
Note receivable	-	-	-
Net OPEB asset (Note 7)	-	-	-
Capital assets (Note 5):			
Assets not being depreciated	-	-	-
Assets being depreciated - Net	-	-	-
Total assets	<u>\$ 60,207,006</u>	<u>\$ 2,960,119</u>	<u>\$ 63,167,125</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 1,814,032	\$ -	\$ 1,814,032
Advances	4,702,924	-	4,702,924
Deposits	1,541,089	-	1,541,089
Accrued workers' compensation (Note 6)	129,678	-	129,678
Accrued liabilities and other	2,073,923	-	2,073,923
Current portion of note payable	-	-	-
Noncurrent liabilities:			
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation liabilities (Note 6)	-	-	-
Notes payable	-	-	-
Accrued sick and vacation	-	-	-
Total liabilities	10,261,646	-	10,261,646
<b>Fund Balances - Unreserved - Designated (Note 9)</b>	<u>49,945,360</u>	<u>2,960,119</u>	<u>52,905,479</u>
Total liabilities and fund balances	<u>\$ 60,207,006</u>	<u>\$ 2,960,119</u>	<u>\$ 63,167,125</u>
<b>Net Assets</b>			
Invested in capital assets			
Unrestricted			
Total net assets			

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

Adjustments (Note 2)	Statement of Net Assets
\$ 9,894,313	\$ 59,425,292
-	7,205,271
-	360,558
-	152,850
-	708,121
45,662	45,662
-	4,043,905
-	246,539
-	918,902
432,058	432,058
934,427	934,427
186,954,846	186,954,846
<u>524,576,048</u>	<u>524,576,048</u>
722,837,354	786,004,479
-	1,814,032
-	4,702,924
-	1,541,089
-	129,678
(305,924)	1,767,999
45,662	45,662
76,599	76,599
298,422	298,422
432,058	432,058
<u>1,394,603</u>	<u>1,394,603</u>
1,941,420	12,203,066
<u>(52,905,479)</u>	-
<u>(50,964,059)</u>	<u>12,203,066</u>
711,530,894	711,530,894
<u>62,270,519</u>	<u>62,270,519</u>
<u><b>\$ 773,801,413</b></u>	<u><b>\$ 773,801,413</b></u>

# Road Commission of Macomb County

	Major Fund - Road	Nonmajor Fund Capital Projects	Total Governmental Funds
<b>Revenue</b>			
Licenses, permits, and fees	\$ 500,789	\$ -	\$ 500,789
Federal aid for construction	19,684,797	-	19,684,797
Federal grant money	2,400,221	-	2,400,221
State revenue:			
Michigan Transportation Fund	34,095,788	-	34,095,788
Build Michigan Fund	1,416,053	-	1,416,053
State Critical Bridge	2,079,599	-	2,079,599
Contributions from local units:			
Cities	862,871	-	862,871
Townships and villages	1,188,042	-	1,188,042
County	1,301,578	-	1,301,578
Charges for services:			
State trunkline maintenance	6,138,083	-	6,138,083
State nonmaintenance	1,380,361	-	1,380,361
Other revenue:			
Cities, townships, and other	682,178	-	682,178
Inspections	62,069	-	62,069
Land and roads released from developers	-	-	-
Operating income from internal service fund	-	-	-
Interest	979,809	69,404	1,049,213
Sale of land, property, rental, and other	233,507	-	233,507
Total revenue	73,005,745	69,404	73,075,149
<b>Expenditures/Expenses - Current</b>			
Primary roads	28,320,892	-	28,320,892
Local roads	6,882,955	-	6,882,955
Primary bridges	8,580,748	-	8,580,748
Local bridges	318,797	-	318,797
Nonroad projects	107,462	-	107,462
State maintenance	3,930,772	-	3,930,772
State nonmaintenance	820,632	-	820,632
Equipment rental credits - Net of equipment expense, excluding fringe	(1,963,385)	-	(1,963,385)
Engineering	1,057,565	-	1,057,565
Administrative	(52,034)	-	(52,034)
Inspections and other	832,393	-	832,393
Distributive fringe benefits	15,406,079	-	15,406,079
Other distributive expense	4,725,814	-	4,725,814
Capital outlay - Net of depreciation credits	(129,311)	-	(129,311)
Depreciation expense	-	-	-
Total expenditures/expenses	68,839,379	-	68,839,379
<b>Excess of Revenues Over Expenditures/ Change in Net Assets</b>	4,166,366	69,404	4,235,770
<b>Other Financing Sources (Uses) - Transfers</b>	579,346	(579,346)	-
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	4,745,712	(509,942)	4,235,770
<b>Fund Balances/Net Assets - October 1, 2008</b>	45,199,648	3,470,061	48,669,709
<b>Fund Balances/Net Assets - September 30, 2009</b>	<b>\$ 49,945,360</b>	<b>\$ 2,960,119</b>	<b>\$ 52,905,479</b>



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

Adjustments (Note 2)	Statement of Activities
\$ -	\$ 500,789
140,350	19,825,147
-	2,400,221
-	34,095,788
-	1,416,053
-	2,079,599
-	862,871
(35,211)	1,152,831
(21,089)	1,280,489
-	6,138,083
-	1,380,361
-	682,178
-	62,069
2,703,366	2,703,366
(134,913)	(134,913)
231,954	1,281,167
(65,729)	167,778
2,818,728	75,893,877
(20,963,395)	7,357,497
(694,015)	6,188,940
(8,580,748)	-
(318,797)	-
-	107,462
-	3,930,772
-	820,632
-	(1,963,385)
-	1,057,565
-	(52,034)
-	832,393
(3,314,795)	12,091,284
(4,071,586)	654,228
(2,212,216)	(2,341,527)
36,605,672	36,605,672
(3,549,880)	65,289,499
6,368,608	10,604,378
-	-
6,368,608	10,604,378
714,527,326	763,197,035
<b>\$ 720,895,934</b>	<b>\$ 773,801,413</b>

# Road Commission of Macomb County

## Road Fund Budgetary Comparison Schedule Year Ended September 30, 2009

	Original Budget	Amended Budget	Actual
<b>Revenue</b>			
Licenses, permits, and fees	\$ 737,500	\$ 691,500	\$ 500,789
Federal aid for construction	39,150,876	21,501,636	19,684,797
Federal grant money	1,745,800	1,745,800	2,400,221
State revenue:			
Michigan Transportation Fund	34,400,000	34,400,000	34,095,788
Build Michigan Fund	1,296,000	1,296,000	1,416,053
State Critical Bridge	5,367,500	2,876,129	2,079,599
Contributions from local units:			
Cities	1,465,808	1,065,808	862,871
Townships	2,637,540	2,037,540	1,188,042
County	1,590,520	1,490,520	1,301,578
Charges for services:			
State trunkline maintenance	5,912,080	6,062,938	6,138,083
State nonmaintenance	555,000	972,926	1,380,361
Other revenue:			
Cities, townships, and other	2,760,000	1,223,147	682,178
Inspections	216,950	227,857	62,069
Interest	1,522,646	1,300,000	979,809
Sale of land, property, rental, and other	137,703	137,703	233,507
Total revenue	99,495,923	77,029,504	73,005,745
<b>Expenditures - Current</b>			
Primary roads	55,031,239	38,600,000	28,320,892
Local roads	9,293,500	8,163,000	6,774,200
Primary bridges	13,406,061	10,000,000	8,580,748
Local bridges	103,000	550,000	318,797
Local drain	100,000	150,000	108,755
Primary drain	100,000	100,000	-
Nonroad projects	1,643,550	1,643,550	107,462
State maintenance	3,938,643	3,938,643	3,930,772
State nonmaintenance	605,000	750,000	820,632
Equipment rental credits - Net of equipment expense, excluding fringe	(2,014,483)	(1,618,083)	(1,963,385)
Engineering	1,080,000	1,100,000	1,057,565
Administrative	1,367,471	1,367,471	(52,034)
Inspections and other	1,425,550	1,364,550	832,393
Distributive fringe benefits	18,523,300	17,473,300	15,406,079
Other distributive expense	5,808,384	5,808,384	4,725,814
Capital outlay - Net of depreciation credits	(853,168)	(475,168)	(129,311)
Total expenditures	109,558,047	88,915,647	68,839,379
<b>Excess of Revenue (Under) Over Expenditures</b>	(10,062,124)	(11,886,143)	4,166,366
<b>Other Financing Sources - Transfers</b>	-	-	579,346
<b>Excess of Revenue and Other Financing Sources (Under) Over Expenditures</b>	(10,062,124)	(11,886,143)	4,745,712
<b>Fund Balance - October 1, 2008</b>	45,199,648	45,199,648	45,199,648
<b>Fund Balance - September 30, 2009</b>	<u>\$ 35,137,524</u>	<u>\$ 33,313,505</u>	<u>\$ 49,945,360</u>

# Road Commission of Macomb County

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**Proprietary Fund - Internal Service Fund  
General Liability Self-insurance Fund  
Statement of Net Assets  
September 30, 2009**

<b>Assets - Current - Cash and investments (Note 4)</b>	\$ 9,894,313
<b>Liabilities - Noncurrent liabilities - Provision for uninsured losses (Note 6)</b>	<u>76,599</u>
<b>Net Assets - Unrestricted</b>	<u><b>\$ 9,817,714</b></u>

# Road Commission of Macomb County

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**Proprietary Fund - Internal Service Fund  
General Liability Self-insurance Fund  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year Ended September 30, 2009**

<b>Operating Expenses</b>	
Settlements, premiums, and other	\$ 168,718
Change in allowance for claims incurred but not reported	<u>(33,805)</u>
<b>Operating Loss</b>	(134,913)
<b>Nonoperating Revenues</b> - Interest income	<u>231,954</u>
<b>Increase in Net Assets</b>	97,041
<b>Net Assets</b> - Beginning of year	<u>9,720,673</u>
<b>Net Assets</b> - End of year	<u><u>\$ 9,817,714</u></u>

# Road Commission of Macomb County

## Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Cash Flows Year Ended September 30, 2009

<b>Cash Flows from Operating Activities</b> - Claims, settlements, premiums, and other items paid	\$ (168,718)
<b>Cash Flows from Investing Activities</b>	
Interest received on investments	231,954
Net proceeds and purchases of investment securities	<u>(63,236)</u>
Net cash provided by investing activities	<u>168,718</u>
<b>Net Change in Cash and Cash Equivalents</b>	-
<b>Cash and Cash Equivalents</b> - Beginning of year	<u>-</u>
<b>Cash and Cash Equivalents</b> - End of year	<u><u>\$ -</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (134,913)
Adjustments to reconcile operating loss to net cash from operating activities - Change in provision for uninsured losses and liabilities	<u>(33,805)</u>
Net cash used in operating activities	<u><u>\$ (168,718)</u></u>
<b>Reconciliation to Balance Sheet</b>	
Cash and investments recorded on balance sheet/statement of net assets	\$ 9,894,313
Less fixed-term investments	<u>(9,894,313)</u>
Total	<u><u>\$ -</u></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended September 30, 2009, there were no noncash investing, capital, or financing activities.

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# Road Commission of Macomb County

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**Notes to Financial Statements  
September 30, 2009**

## **Note 1 - Significant Accounting Policies**

The Road Commission of the County of Macomb, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in Macomb County. The Road Commission's financial statements will be included in the basic financial statements of the County of Macomb, Michigan as a discretely presented component unit. Transactions between the Road Commission and the County of Macomb, Michigan primarily relate to the cost sharing of Road Commission-administered construction projects, which were not significant during the year.

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:

### **Reporting Entity**

The Road Commission is governed by an appointed three-member board of commissioners. As required by accounting principles generally accepted in the United States of America, these financial statements present the Road Commission of Macomb County. In accordance with accounting principles generally accepted in the United States of America, there are no component units included in these financial statements.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. For the most part, the effect of interfund activity has been removed from these statements. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and are included in the government-wide financial statements. Major and nonmajor individual governmental funds are reported as separate columns. Separate financial statements are provided for the proprietary fund.

# Road Commission of Macomb County

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**Notes to Financial Statements  
September 30, 2009**

## **Note 1 - 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, as are the proprietary fund financial statements. 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. Amounts collected beyond this time period are recorded as deferred revenue. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Billings on the contracts include a provision for fringe benefits and overhead. No profit is recognized on these contracts. Interest associated with the current fiscal period is considered susceptible to accrual and has been recognized as revenue of the current fiscal period. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures for construction and work orders are recognized as the work progresses. Amounts billed to other governmental units for participation in construction or for work orders include equipment usage charges based on predetermined rates. These rates are designed to cover direct equipment operating costs, which include depreciation recorded within the government-wide statements. However, expenditures related to compensated absences and claims and judgments, accounted for within the Road Fund, are recorded only when payment is due.

The Road Fund is the Road Commission's only major governmental fund and is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.



# Road Commission of Macomb County

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**Notes to Financial Statements  
September 30, 2009**

## **Note I - Significant Accounting Policies (Continued)**

Additionally, the Road Commission reports the following fund type:

**Internal Service Fund** - The Internal Service Fund is a proprietary fund type and accounts for risk management services provided to the Road Fund on a cost-reimbursement basis.

Proprietary funds distinguish operating revenue and operating expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **Assets, Liabilities, and Net Assets or Equity**

**Cash Equivalents** - For the purpose of the statement of cash flows, the Road Commission does not include fixed-term investments (such as certificates of deposit) as cash equivalents. Only cash items (cash on hand, checking accounts, and savings accounts) are included.

**Investments** - Fixed term investments are reported at fair value, which approximates cost due to maturity dates.

**Inventory and Prepaid Costs** - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

**Surplus Properties** - Surplus properties are recorded at the lower of acquisition cost or market.

**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 \$1,000 and an estimated useful life in excess of one year. 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 of Macomb County

Notes to Financial Statements  
September 30, 2009

## Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Road and other equipment	5-25 years
Infrastructure	8-50 years

**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. The government-wide statement of net assets accrues all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when time is taken off or the employee is terminated).

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as provisions for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Pension and Other Postemployment Benefit Costs** - The Road Commission offers both pension and retiree healthcare benefits to retirees. The Road Commission receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

**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.

# Road Commission of Macomb County

Notes to Financial Statements  
September 30, 2009

## Note 1 - Significant Accounting Policies (Continued)

**New Charter** - The Home Rule Charter of Macomb County was adopted by the voters on November 3, 2009 and signed by the Charter Commission.

Section 11.5.2 of the Charter provides "if the voters of the County, pursuant to law, approve the reorganization of the board of county road commissioners, the Road Commission of Macomb County existing prior to the effective date of this Charter shall cease to exist and all duties and functions of the Road Commission of Macomb County shall be assumed by a Department of Roads, which shall be subject to an Organization Plan with its core functions remaining intact".

The County Executive will be voted into office in November 2010 and will assume office on January 1, 2011.

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

## 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	\$ 52,905,479
Capital assets used in governmental activities are not financial resources and are not reported in the funds	711,530,894
State and local receivables are not available to pay for current year expenditures and are therefore deferred in the governmental funds	305,924
Noncurrent compensated absences and provisions for workers' compensation uninsured losses are not reported in the funds	(1,693,025)
Note payable is not due and payable in the current period and is not reported in the funds	(477,720)
Other long-term assets, such as net OPEB assets and loans receivable, do not present an asset on current financial resources and are not reported as fund assets	1,412,147
Internal Service Funds are included as governmental activities	<u>9,817,714</u>
Government-wide net assets	<u>\$ 773,801,413</u>

# Road Commission of Macomb County

Notes to Financial Statements  
September 30, 2009

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

Net change in fund balances - Total government funds	\$	4,235,770
Governmental funds report capital outlay as an expenditure; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay expenditures		38,549,283
Depreciation expense		(36,605,672)
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned		18,321
In the statement of activities, land and roads released from developers are reported as revenue at the fair market value and the fixed asset is capitalized		2,703,366
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities and reported in the fund statements when they come due for payment		(349,175)
Changes in other liabilities, such as net OPEB obligations, reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements		1,955,444
Internal Service Funds are also included as governmental activities		<u>97,041</u>
Change in net assets of governmental activities	\$	<u>10,604,378</u>

## Note 3 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the finance and MIS director 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, 2009 has not been calculated. The budget was amended in a legally permissible manner.

# Road Commission of Macomb County

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**Notes to Financial Statements  
September 30, 2009**

## **Note 3 - Stewardship, Compliance, and Accountability (Continued)**

The Road Fund budget has been adopted on an activity basis and prepared in accordance with accounting principles generally accepted in the United States of America; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no significant budget variances in the Road Fund. The budgetary comparison schedule as presented on page 11 is shown on a condensed basis from the budget as formally adopted. Copies of the adopted budget are available for comparison at the Road Commission offices.

## **Note 4 - Deposits and Investments**

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

The Road Commission has designated 11 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in certificates of deposit, U.S. Treasury bills, and bank investment pools, but not the remainder of state statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk, which is examined in more detail below:

# Road Commission of Macomb County

**Notes to Financial Statements  
September 30, 2009**

## Note 4 - Deposits and Investments (Continued)

### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission has adopted a deposit policy for custodial credit risk which limits the Road Commission's investment in an individual institution to no more than 1 percent of the institution's equity and no more than 15 percent of the Road Commission's total deposit balance. At year end, \$53,588,083 of the Road Commission's deposit balance (certificates of deposit, checking, and savings accounts) of \$55,948,083 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 deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

## Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals / Adjustments	Ending Balance
Capital assets not being depreciated - Land	\$ 184,603,914	\$ 2,350,932	\$ -	\$ 186,954,846
Capital assets being depreciated:				
Land improvements	1,416,567	1,211	35,655	1,382,123
Buildings	25,185,131	583,745	675,344	25,093,532
Road equipment	23,942,871	1,253,942	572,709	24,624,104
Other equipment	3,502,945	1,032,033	327,318	4,207,660
Infrastructure	891,202,079	36,689,501	-	927,891,580
Subtotal	945,249,593	39,560,432	1,611,026	983,198,999
Less accumulated depreciation for:				
Land improvements	881,519	69,286	-	950,805
Buildings	6,531,327	502,169	178,571	6,854,925
Road equipment	21,049,915	1,280,778	557,774	21,772,919
Other equipment	2,631,936	499,476	215,963	2,915,449
Infrastructure	391,874,890	34,253,963	-	426,128,853
Subtotal	422,969,587	36,605,672	952,308	458,622,951
Net capital assets being depreciated	522,280,006	2,954,760	658,718	524,576,048
Net capital assets	\$ 706,883,920	\$ 5,305,692	\$ 658,718	\$ 711,530,894

# Road Commission of Macomb County

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**Notes to Financial Statements  
September 30, 2009**

## **Note 5 - Capital Assets (Continued)**

**Construction Commitments** - The Road Commission has 27 significant active projects at year end totaling \$8,681,983. The Road Commission's cumulative expenditures and remaining commitment with these contractors as of September 30, 2009 are \$5,264,682 and \$3,417,301, respectively.

## **Note 6 - Risk Management**

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits provided to employees but is self-funded for general liability incidents and workers' compensation claims up to a retention amount, at which time the Road Commission's reinsurance begins. Retention amounts during the year ended September 30, 2009 were \$5,000,000 and \$325,000 for general liability and workers' compensation, respectively. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **General Liability Claims**

Beginning January 17, 1993, the Road Commission assumes costs for general liability claims, including all cost associated with those claims, within certain limits. The Road Commission is liable for losses up to a retention amount per claim and is liable for losses in excess of the maximum insurance coverage.

The Road Commission estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The Road Commission has been named defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. It is the opinion of legal counsel and management that reasonable estimates of the Road Commission's liability for these matters have been recorded in the General Liability Self-insurance Fund as outlined below.

# Road Commission of Macomb County

## Notes to Financial Statements September 30, 2009

### Note 6 - Risk Management (Continued)

Changes in the estimated recorded liability for the past two fiscal years were as follows:

	<u>2009</u>	<u>2008</u>
Estimated liability - Beginning of year	\$ 110,404	\$ 375,883
Decrease in estimated claims incurred, including changes in estimates	(31,605)	(252,039)
Claim payments	<u>(2,200)</u>	<u>(13,440)</u>
Estimated liability - End of year	<u>\$ 76,599</u>	<u>\$ 110,404</u>

There are also certain property and employment-related lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. These lawsuits have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, which may result from the resolution of these cases. The Road Commission management has recorded a provision in the financial statements for the general liability retention amount of \$50,000 as of September 30, 2009 related to an accident that occurred during the year. No other provision has been made in the financial statement as of September 30, 2009 for the ultimate liability related to any other matters in excess of the estimated liability discussed above. However, in the opinion of Road Commission management and legal counsel, the probable additional exposure of the Road Commission for these lawsuits is immaterial to the financial statements.



# Road Commission of Macomb County

Notes to Financial Statements  
September 30, 2009

## Note 6 - Risk Management (Continued)

### Workers' Compensation Claims

The Road Commission assumes costs for workers' compensation claims within certain limits.

The Road Commission estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The current portion of these estimates is recorded in the Road Fund. The government-wide balance sheet/statement of net assets includes the current and long-term portions of these estimates. Changes in the estimated liability for the past two fiscal years were as follows:

	2009	2008
Estimated liability - Beginning of year	\$ 40,528	\$ 154,035
Increase (decrease) in estimated claims incurred, including changes in estimates	654,020	(79,164)
Claim payments	(266,448)	(34,343)
Estimated liability - End of year	<u>\$ 428,100</u>	<u>\$ 40,528</u>

## Note 7 - Other Postemployment Benefits

The Commission provides retiree healthcare benefits to eligible employees and their spouses through the Road Commission of Macomb County Retiree Health Care Plan (the "Plan"). This is an agent multiple-employer defined benefit plan administered by the Municipal Employees' Retirement System of Michigan (MERS). The benefits are provided under collective bargaining agreements.

The collective bargaining agreements require no contribution from employees. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of Commissioners through annual budget resolutions.

# Road Commission of Macomb County

## Notes to Financial Statements September 30, 2009

### Note 7 - Other Postemployment Benefits (Continued)

For the year ended September 30, 2009, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2007. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 6,302,811
Amounts contributed:	
Payments of current premiums and other adjustments	(5,258,255)
Advance funding	<u>(3,000,000)</u>
Increase in net OPEB obligation	(1,955,444)
OPEB obligation - Beginning of year	<u>1,021,017</u>
OPEB asset - End of year	<u>\$ (934,427)</u>

The annual other postemployment benefits (OPEB) costs, the percentage contributed to the Plan, and the net OPEB obligation (asset) for the years ended September 30 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual OPEB costs	\$ 6,302,811	\$ 6,302,811	\$ 6,147,445
Percentage contributed	131.02%	94.42%	89.42%
Net OPEB obligation (asset)	\$ (934,427)	\$ 1,021,017	\$ 649,979

The funding progress of the Plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2007:	
Actuarial value of assets	\$ 9,621,290
Actuarial accrued liability	\$ 87,898,593
Unfunded AAL	\$ 78,277,303
Funded ratio	11%
Annual covered payroll	\$ 14,621,336
Ratio of UAAL to covered payroll	535%

# Road Commission of Macomb County

**Notes to Financial Statements  
September 30, 2009**

## **Note 7 - Other Postemployment Benefits (Continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 6 percent after 10 years. Both rates included a 4 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years.

## **Note 8 - Defined Benefit Pension Plan**

### **Plan Description**

The Road Commission contributes to the Macomb County Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The Macomb County Employees' Retirement System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Macomb County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the Macomb County Employees' Retirement System. That report may be obtained by writing to the Retirement Commission at 10 N. Main, Mt. Clemens, Michigan 48043.

# Road Commission of Macomb County

**Notes to Financial Statements  
September 30, 2009**

## Note 8 - Defined Benefit Pension Plan (Continued)

### Funding Policy

The obligation to contribute to and maintain the Macomb County Employees' Retirement System for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a contribution of 3.5 percent of gross wages for employees hired before January 1, 2002 and 2.5 percent of gross wages for employees hired after January 1, 2002.

### Annual Pension Cost

For the valuation year ended December 31, 2008, the Road Commission's annual pension cost of \$2,310,528 for the plan was equal to the Road Commission's required and actual contribution of \$2,310,528 which was remitted to the County of Macomb. The annual required contribution was determined as part of an actuarial valuation at December 31, 2008, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 5 percent per year, compounded annually and attributable to inflation, (c) additional projected salary increases of up to 5 percent per year, depending on service and attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The remaining UAAL (or overfunding) was amortized by level percentage of payroll contributions over 20 years.

Additional pension plan information for the Road Commission is as follows:

	Fiscal Year Ended September 30					
	2009	2008	2007	2006	2005	2004
Annual pension cost (APC)	\$ 2,055,174	\$ 2,310,528	\$ 2,665,713	\$ 2,903,247	\$ 2,008,363	\$ 964,174
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

  

	Valuation Year Ended December 31					
	2008	2007	2006	2005	2004	2003
Actuarial value of assets	\$ 106,261,605	\$ 107,036,782	\$ 100,222,610	\$ 93,200,366	\$ 87,876,994	\$ 84,102,585
Actuarial accrued liability (AAL) (entry age)	\$ 105,082,508	\$ 104,826,658	\$ 98,836,355	\$ 97,873,919	\$ 94,783,521	\$ 90,840,389
(Underfunded) overfunded AAL	\$ 1,179,097	\$ 2,210,124	\$ 1,386,255	\$ (4,673,553)	\$ (6,906,527)	\$ (6,737,804)
Funded ratio	101.12%	102.11%	101.40%	95.22%	92.71%	92.58%
Covered payroll	\$ 14,449,299	\$ 14,621,336	\$ 15,297,108	\$ 15,788,396	\$ 16,363,729	\$ 15,166,250
UAAL as a percentage of covered payroll	0.00%	0.00%	0.00%	29.60%	42.21%	44.43%

# Road Commission of Macomb County

## Notes to Financial Statements September 30, 2009

### Note 9 - Designated Fund Balance

Fund balances at September 30, 2009 have been designated for the following purposes:

	Major Fund - Road Fund	Nonmajor Fund - Capital Projects Fund
Subsequent year's expenditures	\$ 8,244,823	\$ 116,000
Bridge projects	10,000,000	-
Traffic signal upgrades	5,950,537	-
Salt storage	-	700,000
Pavement management study	850,000	-
Sign inventory	900,000	-
County-wide pavement repair	10,000,000	-
Road widening/Congestion relief	13,000,000	-
Administrative site paving and renovation	-	500,000
Service center renovation	-	644,119
Fund transfer for equipment purchases	-	1,000,000
Guardrail replacement	1,000,000	-
Total	<u>\$ 49,945,360</u>	<u>\$ 2,960,119</u>

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