

**Macomb County Department of Roads**  
**(a department of Macomb County, Michigan)**

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**Financial Report**  
**September 30, 2011**

# Macomb County Department of Roads

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## Independent Auditor's Report

To the County Executive and  
Board of Commissioners  
Macomb County Department of Roads

We have audited the accompanying financial statements of the governmental activities, the Road Fund (the Department of Roads' only major fund), and the aggregate remaining fund information of the Macomb County Department of Roads (a department of Macomb County, Michigan) (the "Department of Roads") as of and for the year ended September 30, 2011, which collectively comprise the Department of Roads' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department of Roads' 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.

As discussed in Note 1, the financial statements of the Department of Roads are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of Macomb County that is attributable to the transactions of the Department of Roads. They do not purport to and do not present fairly the financial position of Macomb County, Michigan as of September 30, 2011, the changes in its financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Department of Roads' only major fund), and the aggregate remaining fund information of the Macomb County Department of Roads as of September 30, 2011, 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.

To the County Executive and  
Board of Commissioners  
Macomb County Department of Roads

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2012 on our consideration of the Department of Roads' internal control over financial reporting on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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*

March 7, 2012

# Macomb County Department of Roads

## Management's Discussion and Analysis

As management of the Macomb County Department of Roads (the "Department of Roads"), we offer the readers of the Department of Roads' financial statements this narrative overview and analysis of the financial activities of the Department of Roads for the fiscal year ended September 30, 2011.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding of the Department of Roads' 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 revenue, expenditures, and changes in fund balances/statement of activities.

### Financial Analysis

Net assets enable governmental agencies to determine their overall fiscal position. The Macomb County Department of Roads' net assets increased by 0.5 percent from a year ago, increasing from \$797.3 million to \$801.0 million. This increase was due primarily to an increase in the Department of Roads' capital assets. The Department of Roads completed a large amount of construction work in fiscal year 2011. Many were new road projects and some were carried over from prior years. In addition, the Department of Roads completed many signal optimization and modernization projects. The value of this infrastructure is included in the statement of net assets. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of September 30, 2011 to the prior year.

### Condensed Statement of Net Assets

	September 30, 2011	September 30, 2010
<b>Assets</b>		
Current assets	\$ 72.7	\$ 74.9
Capital and other noncurrent assets	739.4	734.1
Total assets	812.1	809.0
<b>Liabilities</b>		
Current liabilities	8.6	9.8
Long-term liabilities outstanding	2.5	1.9
Total liabilities	11.1	11.7
<b>Net Assets</b>		
Invested in capital assets	735.9	732.5
Restricted for roads	65.1	64.8
Total net assets	<u>\$ 801.0</u>	<u>\$ 797.3</u>

# Macomb County Department of Roads

## Management's Discussion and Analysis (Continued)

Net invested in capital assets increased from \$732.5 million in fiscal year 2010 to \$735.9 million in fiscal year 2011. This increase was a result of new infrastructure being added. Restricted net assets other than those invested in capital assets, which finance the day-to-day operations of road activity and the future growth of Macomb County for infrastructure, were \$65.1 million at September 30, 2011. This amount increased approximately 0.5 percent from last year's restricted net assets of \$64.8 million.

The following table shows the changes in net assets (in millions of dollars) as of September 30, 2011 and the prior year:

### Condensed Statement of Activities

	Year Ended September 30	
	2011	2010
<b>Revenue</b>		
State aid	\$ 36.7	\$ 37.0
Federal sources	19.2	25.6
Local and other sources	11.6	14.5
Land and roads released from developers	8.1	13.9
Total revenue	75.6	91.0
<b>Expenses</b>		
Maintenance and equipment	17.7	13.5
Administrative	15.8	16.8
Depreciation	38.4	37.2
Total expenses	71.9	67.5
<b>Increase in Net Assets</b>	<b>\$ 3.7</b>	<b>\$ 23.5</b>

### Statement of Activities

The Department of Roads' total revenue decreased 17 percent from the prior year. The revenue from federal and local sources decreased 25 percent due to the funds received on road construction projects. Several large construction projects were carried forward to next fiscal year, and the revenue from those projects will be recorded when received. In addition, a large decrease was experienced in the land and roads being released from developers. Expenses increased approximately \$4.4 million over last year. The increase was seen primarily in the maintenance and equipment line. This was due to the harsh winter that was experienced and the expenses incurred to maintain the roads. Overall, net assets increased \$3.6 million from the prior year.

# **Macomb County Department of Roads**

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

### **Road Fund Budgetary Highlights**

Prior to beginning each new fiscal year, the Macomb County Department of Roads' budget is prepared based upon certain assumptions and facts available at that time. Throughout the year, the Road Department 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. These amendments are approved by the County Board. The Department of Roads amended its 2011 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 \$15.8 million lower than the original budget due primarily to changes in construction projects and reductions in staffing. The Macomb County Department of Roads has made great efforts to reduce staffing and benefit costs through attrition. Since fiscal year 2004, the Department of Roads has reduced the work force from 311 employees to the current level of 230 employees, resulting in a 26 percent decrease in staffing levels. The actual revenue for fiscal year 2011 was also lower than the budgeted amount. With several construction projects being rolled over to fiscal year 2012, the revenue sharing on these projects will also be recognized in 2012. The Department of Roads secured construction contracts of approximately \$23.6 million, and actual expenditures on these contracts were less than what was budgeted.

### **Capital Assets**

The Department of Roads had \$735.9 million in net capital assets at the end of the fiscal year. This amount represents a net increase of \$3.4 million from the previous year. The Department of Roads added \$41.8 million to its investment in capital assets during the current year, including approximately \$35.4 million of infrastructure additions. The recorded amount of the infrastructure assets net of depreciation contained in this report is \$514.6 million and \$515.5 million for fiscal years 2011 and 2010, 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. Although the Macomb County Department of Roads experienced consistent funding in Michigan Transportation Funds (MTF) as compared to fiscal year 2010, MTF revenue is expected to decrease slightly in fiscal year 2012. MTF dollars are the main source of income to cover operating expenses of the Department of Roads, including all road maintenance expenses and the Department of Roads' share of construction expense. Without adequate increases in MTF revenue and revenue sharing, the Macomb County Department of Roads 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 Macomb County Department of Roads can provide. The Department of Roads continues to face challenging financial times. Revenue and expenditures will be monitored throughout the year to assure fiscal responsibility.

# **Macomb County Department of Roads**

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

### **Contacting the Department of Roads' Management**

This financial report is designed to provide a general overview of the Department of Roads' 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 Macomb County Department of Roads, Michelle M. Mykytiak, Finance Director. For more specific information regarding construction projects, contact Robert Hoepfner, Director of Roads.



# Macomb County Department of Roads

	Major Fund - Road	Nonmajor Fund Capital Projects	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 4)	\$ 47,133,336	\$ 1,431,683	\$ 48,565,019
Receivables:			
State of Michigan	8,005,710	-	8,005,710
Construction accounts receivable	56,739	-	56,739
Accrued interest receivable	55,818	-	55,818
Other	413,183	-	413,183
Current portion of note receivable	-	-	-
Inventory	4,554,688	-	4,554,688
Surplus properties	232,403	-	232,403
Prepaid costs and other	1,018,128	-	1,018,128
Note receivable	-	-	-
Net OPEB asset (Note 7)	-	-	-
Capital assets (Note 5):			
Assets not being depreciated	-	-	-
Assets being depreciated - Net	-	-	-
<b>Total assets</b>	<b>\$ 61,470,005</b>	<b>\$ 1,431,683</b>	<b>\$ 62,901,688</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Liabilities due within one year:			
Accounts payable	\$ 2,885,213	\$ -	\$ 2,885,213
Advances	4,213,976	-	4,213,976
Deposits	636,660	-	636,660
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation (Note 6)	31,985	-	31,985
Accrued liabilities and other	787,289	-	787,289
Current portion of note payable	-	-	-
Liabilities due in greater than one year:			
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation liabilities (Note 6)	-	-	-
Notes payable	-	-	-
Accrued sick and vacation	-	-	-
<b>Total liabilities</b>	<b>8,555,123</b>	<b>-</b>	<b>8,555,123</b>
<b>Fund Balances - Restricted for roads</b>	<b>52,914,882</b>	<b>1,431,683</b>	<b>54,346,565</b>
<b>Total liabilities and fund balances</b>	<b>\$ 61,470,005</b>	<b>\$ 1,431,683</b>	<b>\$ 62,901,688</b>
<b>Net Assets</b>			
Invested in capital assets			
Restricted for roads			
<b>Total net assets</b>			

**Governmental Funds Balance Sheet/Statement of Net Assets**  
**September 30, 2011**

Adjustments (Note 2)	Statement of Net Assets
\$ 9,620,536	\$ 58,185,555
-	8,005,710
-	56,739
-	55,818
-	413,183
123,749	123,749
-	4,554,688
-	232,403
-	1,018,128
1,091,595	1,091,595
2,431,003	2,431,003
198,637,361	198,637,361
<u>537,267,921</u>	<u>537,267,921</u>
749,172,165	812,073,853
-	2,885,213
-	4,213,976
-	636,660
25,521	25,521
-	31,985
(92,356)	694,933
123,749	123,749
24,067	24,067
94,775	94,775
1,091,595	1,091,595
<u>1,243,864</u>	<u>1,243,864</u>
2,511,215	11,066,338
<u>(54,346,565)</u>	-
(51,835,350)	11,066,338
735,905,282	735,905,282
<u>65,102,233</u>	<u>65,102,233</u>
<u>\$ 801,007,515</u>	<u>\$ 801,007,515</u>

# Macomb County Department of Roads

	Major Fund - Road	Nonmajor Fund Capital Projects	Total Governmental Funds
<b>Revenue</b>			
Licenses, permits, and fees	\$ 325,504	\$ -	\$ 325,504
Federal aid for construction	19,007,747	-	19,007,747
Federal grant money	203,815	-	203,815
State revenue:			
Michigan Transportation Fund	34,758,530	-	34,758,530
Build Michigan Fund	1,425,254	-	1,425,254
State Critical Bridge	479,112	-	479,112
Contributions from local units:			
Cities	566,187	-	566,187
Townships and villages	1,307,802	-	1,307,802
County	780,393	-	780,393
Charges for services:			
State trunkline maintenance	7,037,784	-	7,037,784
State nonmaintenance	159,782	-	159,782
Other revenue:			
Cities, townships, and other	1,296,654	-	1,296,654
Inspections	3,776	-	3,776
Land and roads released from developers	-	-	-
Operating income from internal service fund	-	-	-
Interest	192,448	5,193	197,641
Sale of land, property, rental, and other	71,931	-	71,931
Total revenue	<u>67,616,719</u>	<u>5,193</u>	<u>67,621,912</u>
<b>Expenditures/Expenses - Current</b>			
Primary roads	26,883,623	-	26,883,623
Local roads	8,231,832	-	8,231,832
Primary bridges	4,245,825	-	4,245,825
Local bridges	237,701	-	237,701
Non-road projects	2,320,652	-	2,320,652
State maintenance	4,610,440	-	4,610,440
State nonmaintenance	101,470	-	101,470
Equipment rental credits - Net of equipment expense, excluding fringe	(648,819)	-	(648,819)
Engineering	1,108,335	-	1,108,335
Administrative	545,832	-	545,832
Inspections and other	928,113	-	928,113
Distributive fringe benefits	15,595,833	-	15,595,833
Other distributive expense	4,660,820	-	4,660,820
Capital outlay - Net of depreciation credits	(284,811)	-	(284,811)
Depreciation expense	-	-	-
Total expenditures/expenses	<u>68,536,846</u>	<u>-</u>	<u>68,536,846</u>
<b>Excess of Revenue (Under) Over Expenditures/ Change in Net Assets</b>	(920,127)	5,193	(914,934)
<b>Other Financing Sources (Uses) - Transfers</b>	<u>279,383</u>	<u>(279,383)</u>	<u>-</u>
<b>Excess of Revenue and Other Financing Sources (Uses) (Under) Over Expenditures/Change in Net Assets</b>	(640,744)	(274,190)	(914,934)
<b>Fund Balances/Net Assets - October 1, 2010</b>	<u>53,555,626</u>	<u>1,705,873</u>	<u>55,261,499</u>
<b>Fund Balances/Net Assets - September 30, 2011</b>	<u>\$ 52,914,882</u>	<u>\$ 1,431,683</u>	<u>\$ 54,346,565</u>

**Statement of Revenue, Expenditures, and Changes in  
Fund Balances/Statement of Activities  
Year Ended September 30, 2011**

Adjustments (Note 2)	Statement of Activities
\$ -	\$ 325,504
-	19,007,747
-	203,815
-	34,758,530
-	1,425,254
-	479,112
5,582	571,769
-	1,307,802
-	780,393
-	7,037,784
(12,243)	147,539
(5,868)	1,290,786
-	3,776
8,095,984	8,095,984
(199,883)	(199,883)
34,849	232,490
(22,496)	49,435
7,895,925	75,517,837
(19,069,987)	7,813,636
(2,549,934)	5,681,898
(4,245,825)	-
(237,701)	-
-	2,320,652
-	4,610,440
-	101,470
-	(648,819)
-	1,108,335
-	545,832
-	928,113
(3,165,194)	12,430,639
(3,884,411)	776,409
(1,883,570)	(2,168,381)
38,379,363	38,379,363
3,342,741	71,879,587
4,553,184	3,638,250
-	-
4,553,184	3,638,250
742,107,766	797,369,265
<b>\$ 746,660,950</b>	<b>\$ 801,007,515</b>

# Macomb County Department of Roads

## Road Fund Budgetary Comparison Schedule Year Ended September 30, 2011

	Original Budget	Amended Budget	Actual
<b>Revenue</b>			
Licenses, permits, and fees	\$ 631,500	\$ 426,500	\$ 325,504
Federal aid for construction	21,330,291	17,630,291	19,007,747
Federal grant money	4,015,300	1,000,000	203,815
State revenue:			
Michigan Transportation Fund	32,610,000	34,110,000	34,758,530
Build Michigan Fund	1,296,000	1,296,000	1,425,254
State Critical Bridge	4,370,000	1,000,000	479,112
Contributions from local units:			
Cities	981,230	981,230	566,187
Townships	3,329,984	1,500,000	1,307,802
County	483,650	700,000	780,393
Charges for services:			
State trunkline maintenance	5,759,461	5,759,461	7,037,784
State nonmaintenance	700,000	700,000	159,782
Other revenue:			
Cities, townships, and other	1,005,000	1,033,731	1,296,654
Inspections	165,550	160,372	3,776
Interest	177,238	200,000	192,448
Sale of land, property, rental, and other	82,500	152,443	71,931
Total revenue	<u>76,937,704</u>	<u>66,650,028</u>	<u>67,616,719</u>
<b>Expenditures - Current</b>			
Primary roads	34,373,345	25,146,506	26,883,623
Local roads	9,071,063	8,571,063	8,231,832
Primary bridges	6,999,161	5,449,161	4,245,825
Local bridges	65,000	232,677	237,701
Local drain	100,000	100,000	-
Primary drain	100,000	100,000	-
Nonroad projects	4,401,900	2,401,900	2,320,652
State maintenance	3,642,377	3,642,377	4,610,440
State nonmaintenance	601,000	601,000	101,470
Equipment rental credits - Net of equipment expense, excluding fringe	(1,095,266)	(191,822)	(648,819)
Engineering	1,055,000	1,255,000	1,108,335
Administrative	1,027,460	1,027,460	545,832
Inspections and other	1,040,760	1,003,260	928,113
Distributive fringe benefits	18,459,500	16,709,500	15,595,833
Other distributive expense	5,575,365	5,075,365	4,660,820
Capital outlay - Net of depreciation credits	(1,015,046)	(1,015,046)	(284,811)
Total expenditures	<u>84,401,619</u>	<u>70,108,401</u>	<u>68,536,846</u>
<b>Excess of Expenditures Over Revenue</b>	(7,463,915)	(3,458,373)	(920,127)
<b>Other Financing Sources - Transfers</b>	-	275,000	279,383
<b>Excess of Expenditures Over Revenue and Other Financing Sources</b>	(7,463,915)	(3,183,373)	(640,744)
<b>Fund Balance - October 1, 2010</b>	<u>53,555,626</u>	<u>53,555,626</u>	<u>53,555,626</u>
<b>Fund Balance - September 30, 2011</b>	<u>\$ 46,091,711</u>	<u>\$ 50,372,253</u>	<u>\$ 52,914,882</u>

# Macomb County Department of Roads

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## Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Net Assets September 30, 2011

<b>Assets - Current - Cash and investments (Note 4)</b>	<b>\$ 9,620,536</b>
<b>Liabilities</b>	
Current liabilities - Provision for uninsured losses (Note 6)	25,521
Noncurrent liabilities - Provision for uninsured losses (Note 6)	<u>24,067</u>
Total liabilities	<u>49,588</u>
<b>Net Assets - Restricted for roads</b>	<b><u>\$ 9,570,948</u></b>

# Macomb County Department of Roads

## Proprietary Fund - Internal Service Fund General Liability Self-Insurance Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2011

<b>Operating Expenses</b>	
Settlements, premiums, and other	\$ 191,038
Change in allowance for claims incurred but not reported	<u>8,845</u>
<b>Operating Loss</b>	(199,883)
<b>Nonoperating Revenue - Interest income</b>	<u>34,849</u>
<b>Decrease in Net Assets</b>	(165,034)
<b>Net Assets - Beginning of year</b>	<u>9,735,982</u>
<b>Net Assets - End of year</b>	<u><u>\$ 9,570,948</u></u>

# Macomb County Department of Roads

## Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Cash Flows Year Ended September 30, 2011

<b>Cash Flows from Operating Activities</b> - Claims, settlements, premiums, and other items paid	\$ (191,038)
<b>Cash Flows from Investing Activities</b>	
Interest received on investments	34,849
Net proceeds and purchases of investment securities	<u>156,189</u>
Net cash provided by investing activities	<u>191,038</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	\$ (199,883)
Adjustments to reconcile operating loss to net cash from operating activities - Change in provision for uninsured losses and liabilities	<u>8,845</u>
Net cash used in operating activities	<u><u>\$ (191,038)</u></u>
<b>Reconciliation to Balance Sheet</b>	
Cash and investments recorded on balance sheet/statement of net assets	\$ 9,620,536
Less fixed-term investments	<u>(9,620,536)</u>
Total	<u><u>\$ -</u></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended September 30, 2011, there were no noncash investing, capital, or financing activities.



# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### Note 1 - Significant Accounting Policies

The Macomb County Department of Roads (the "Department of Roads") is a department of Macomb County, Michigan responsible for the maintenance and construction of the road system in Macomb County. The Department of Roads' financial statements will be included in the basic financial statements of the County of Macomb, Michigan. Transactions between the Department of Roads and the County of Macomb, Michigan primarily relate to the cost sharing of construction projects that were administered by the Department of Roads, which were not significant during the year.

The accounting policies of the Department of Roads 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 Department of Roads administered by the County Executive of Macomb County. As required by accounting principles generally accepted in the United States of America, these financial statements present the Macomb County Department of Roads. 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 Department of Roads. For the most part, the effect of interfund activity has been removed from these statements. The Department of Roads 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.

# Macomb County Department of Roads

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## Notes to Financial Statements September 30, 2011

### 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 Department of Roads considers revenue to be available if it is 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 Department of Roads' 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.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### Note 1 - Significant Accounting Policies (Continued)

Additionally, the Department of Roads 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 Department of Roads 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 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 Department of Roads 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.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### 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	3-25 years
Infrastructure	8-50 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Department of Roads' 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 revenue and expenses during the period. Actual results could differ from those estimates.

**Pension and Other Postemployment Benefit Costs** - The Department of Roads offers both pension and retiree healthcare benefits to retirees. The Department of Roads 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 Department of Roads 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.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### Note 1 - Significant Accounting Policies (Continued)

**Fund Equity** - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The Department of Roads implemented GASB Statement No. 54 during the year.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. All of the Department of Roads' fund balance is legally restricted by Act 51 and related Michigan laws.
- Committed - Amounts that have been formally set aside by the County Board of Commissioners for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Commissioners.
- Assigned - Intent to spend resources on specific purposes expressed by the governing body.
- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### 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	\$ 54,346,565
Capital assets used in governmental activities are not financial resources and are not reported in the funds	735,905,282
State and local receivables are not available to pay for current year expenditures and are therefore deferred in the governmental funds	92,356
Noncurrent compensated absences and provisions for workers' compensation uninsured losses are not reported in the funds	(1,338,639)
Note payable is not due and payable in the current period and is not reported in the funds	(1,215,344)
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	3,646,347
Internal service funds are included as governmental activities	<u>9,570,948</u>
Government-wide net assets	<u>\$ 801,007,515</u>

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

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

Net change in fund balances - Total government funds	\$ (914,934)
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	33,660,308
Depreciation expense	(38,379,363)
In the governmental funds, state and local revenue not collected within 60 days of year end is not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	(35,025)
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	8,095,984
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	108,695
Changes in other liabilities, such as net OPEB obligations, reported in the statement of activities do not require the use of current resources and are therefore not reported in the fund statements	1,267,619
Internal service funds are also included as governmental activities	<u>(165,034)</u>
Change in net assets of governmental activities	<u>\$ 3,638,250</u>

### Note 3 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the finance director and adopted by the County Board of Commissioners; subsequent amendments are approved by the County Board of Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2011 has not been calculated. The budget was amended in a legally permissible manner.

# Macomb County Department of Roads

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## Notes to Financial Statements September 30, 2011

### **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 Department of Roads 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 Department of Roads 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 Department of Roads has adopted an investment policy in accordance with the statutory authority.

The Department of Roads has designated nine 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 Department of Roads' deposits and investment policies are in accordance with statutory authority.



# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### Note 4 - Deposits and Investments (Continued)

The Department of Roads' cash and investments are subject to custodial credit risk, which is examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Department of Roads' deposits may not be returned to it. The Department of Roads has adopted a deposit policy for custodial credit risk which limits the Department of Roads' investment in an individual institution to no more than 1 percent of the institution's equity and no more than 15 percent of the Department of Roads' total deposit balance. At year end, \$52,556,553 of the Department of Roads' total deposit balance (certificates of deposit, checking, and savings accounts) of \$52,748,673 was uninsured and uncollateralized. The Department of Roads 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 Department of Roads 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.

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department of Roads will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department of Roads does not have a policy for custodial credit risk. At year end, the department was invested in two money market funds and therefore had no credit risk.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### 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	\$ 194,134,333	\$ 4,503,028	\$ -	\$ 198,637,361
Capital assets being depreciated:				
Land improvements	1,399,134	-	40,900	1,358,234
Buildings	25,395,952	20,257	284,000	25,132,209
Road equipment	24,589,591	1,482,099	584,479	25,487,211
Other equipment	4,423,087	473,694	46,861	4,849,920
Infrastructure	976,614,107	35,369,694	-	1,011,983,801
Subtotal	1,032,421,871	37,345,744	956,240	1,068,811,375
Less accumulated depreciation for:				
Land improvements	1,020,335	60,903	36,291	1,044,947
Buildings	7,358,155	505,452	201,640	7,661,967
Road equipment	21,398,308	1,289,321	581,235	22,106,394
Other equipment	3,128,418	280,533	44,594	3,364,357
Infrastructure	461,122,635	36,243,154	-	497,365,789
Subtotal	494,027,851	38,379,363	863,760	531,543,454
Net capital assets being depreciated	538,394,020	(1,033,619)	92,480	537,267,921
Net capital assets	\$ 732,528,353	\$ 3,469,409	\$ 92,480	\$ 735,905,282

**Construction Commitments** - The Department of Roads has 25 significant active projects at year end with an estimated obligation to the Department of Roads of \$10,491,845. The Department of Roads' cumulative expenditures and estimated remaining commitment with these contractors as of September 30, 2011 are \$7,664,348 and \$2,827,496, respectively.

### Note 6 - Risk Management

The Department of Roads 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 Department of Roads 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 Department of Roads' reinsurance begins. Retention amounts during the year ended September 30, 2011 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 four fiscal years.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### Note 6 - Risk Management (Continued)

#### General Liability Claims

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

The Department of Roads 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 Department of Roads has been named a 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 Department of Roads' liability for these matters have been recorded in the General Liability Self-insurance Fund as outlined below.

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

	<u>2011</u>	<u>2010</u>
Estimated liability - Beginning of year	\$ 40,743	\$ 76,599
Increase in estimated claims incurred, including changes in estimates	29,966	(30,635)
Claim payments	<u>(21,121)</u>	<u>(5,221)</u>
Estimated liability - End of year	<u>\$ 49,588</u>	<u>\$ 40,743</u>

There are also certain property damage-related lawsuits currently pending against the Department of Roads 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. In the opinion of Department of Roads' management and legal counsel, the probable additional exposure of the Department of Roads for these lawsuits or any other legal matter is immaterial to the financial statements.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### Note 6 - Risk Management (Continued)

#### Workers' Compensation Claims

The Department of Roads assumes costs for workers' compensation claims within certain limits.

The Department of Roads 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:

	<u>2011</u>	<u>2010</u>
Estimated liability - Beginning of year	\$ 181,790	\$ 428,100
Increase (decrease) in estimated claims incurred, including changes in estimates	29,590	(129,690)
Claim payments	<u>(84,620)</u>	<u>(116,620)</u>
Estimated liability - End of year	<u>\$ 126,760</u>	<u>\$ 181,790</u>

### Note 7 - Other Postemployment Benefits

The Department of Roads provides retiree healthcare benefits to eligible employees and their spouses through the Macomb County Department of Roads 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 Department of Roads 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 Department of Roads has made contributions to advance-fund these benefits, as determined by the County Board of Commissioners through annual budget resolutions.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

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

For the year ended September 30, 2011, the Department of Roads has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2009. 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)	\$ 5,765,799
Amounts contributed:	
Payments of current premiums and other adjustments	4,033,418
Advance funding	<u>3,000,000</u>
Increase in net OPEB asset	1,267,619
OPEB asset - Beginning of year	<u>1,163,384</u>
OPEB asset - End of year	<u>\$ 2,431,003</u>

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

	2011	2010	2009
Annual OPEB costs	\$ 5,765,799	\$ 6,617,951	\$ 6,302,811
Percentage contributed	121.99%	103.46%	131.02%
Net OPEB asset	\$ 2,431,003	\$ 1,163,384	\$ 934,427

The funding progress of the Plan is as follows:

	2009	2007
Valuation as of December 31:		
Actuarial value of assets	\$ 15,047,927	\$ 9,621,290
Actuarial accrued liability (AAL)	\$ 83,364,455	\$ 87,898,593
Unfunded AAL (UAAL)	\$ 68,316,528	\$ 78,277,303
Funded ratio	18%	11%
Annual covered payroll	\$ 14,421,101	\$ 14,621,336
Ratio of UAAL to covered payroll	474%	535%

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### 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, 2009 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 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after 10 years. Both rates included a 5 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, 2009 was 28 years.

### Note 8 - Defined Benefit Pension Plan

#### Plan Description

The Department of Roads contributes to the Macomb County Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Department of Roads. 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.

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### 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 Department of Roads' competitive bargaining units and requires a contribution of 3.5 percent of gross wages for all employees.

#### Annual Pension Cost

For the valuation year ended December 31, 2010, the Department of Roads' annual pension cost of \$2,053,642 for the plan was equal to the Department of Roads' required and actual contribution of \$2,053,642 which was remitted to the County of Macomb. The annual required contribution was determined as part of an actuarial valuation at December 31, 2010, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.5 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 6 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 Department of Roads is as follows:

	Fiscal Year Ended September 30					
	2011	2010	2009	2008	2007	2006
Annual pension cost (APC)	\$ 1,862,349	\$ 2,042,613	\$ 2,055,174	\$ 2,310,528	\$ 2,665,713	\$ 2,903,247
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

  

	Valuation Year Ended December 31					
	2010	2009	2008	2007	2006	2005
Actuarial value of assets	\$ 104,750,389	\$ 106,170,601	\$ 106,261,605	\$ 107,036,782	\$ 100,222,610	\$ 93,200,366
Actuarial accrued liability (AAL) (entry age)	\$ 112,519,931	\$ 108,359,057	\$ 105,082,508	\$ 104,826,658	\$ 98,836,355	\$ 97,873,919
(Underfunded) overfunded AAL	\$ (7,769,542)	\$ (2,188,456)	\$ 1,179,097	\$ 2,210,124	\$ 1,386,255	\$ (4,673,553)
Funded ratio	93.09%	97.98%	101.12%	102.11%	101.40%	95.22%
Covered payroll	\$ 13,144,747	\$ 14,421,101	\$ 14,449,299	\$ 14,621,336	\$ 15,297,108	\$ 15,788,396
UAAL as a percentage of covered payroll	59.11%	15.18%	0.00%	0.00%	0.00%	29.60%

# Macomb County Department of Roads

## Notes to Financial Statements September 30, 2011

### Note 9 - Intended Use of Fund Balance

Under Michigan law, all fund balance related to the Department of Roads is legally restricted for roads. However, the County has identified the following more specific purposes on which it intends to utilize its resources:

	Major Fund - Road Fund	Nonmajor Fund - Capital Projects Fund
Subsequent year's expenditures	\$ 8,763,523	\$ 250,000
Pending litigation	250,000	-
Bridge projects	16,000,000	-
Traffic signal upgrades	3,000,000	-
Pavement management study	950,000	-
Sign inventory	900,000	-
County-wide pavement repair	13,500,000	-
Road widening/congestion relief	9,051,359	-
Guardrail replacement	500,000	-
Administrative site paving and renovation	-	250,000
Service center renovations	-	931,683
Total	<u>\$ 52,914,882</u>	<u>\$ 1,431,683</u>