

Muskegon County Road Commission

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended September 30, 2013



Muskegon County Road Commission

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# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

Our discussion and analysis of the Muskegon County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended September 30, 2013. This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements, government-wide statements and fund statements.

### REPORTING THE ROAD COMMISSION AS A WHOLE

#### Government-wide Financial Statements

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

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

#### Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type.

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

### FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net position decreased from \$72,053,693 to \$71,748,243 for the year ended September 30, 2013. The net position and change in net position are summarized below.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Net Position

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

Total net position decreased by \$305,450 in 2013. The net investment in capital assets category of net position increased by \$174,544 as current year capital additions exceeded depreciation. Restricted net position, which is restricted for County roads, decreased by \$479,994.

Net position is as follows:

	<u>2013</u>	<u>2012</u>
Assets		
Current and other assets	\$ 7,648,153	\$ 7,932,960
Capital assets	66,049,227	66,094,029
Total assets	<u>73,697,380</u>	<u>74,026,989</u>
Liabilities		
Current liabilities	1,061,862	947,265
Noncurrent liabilities	887,275	1,026,031
Total liabilities	<u>1,949,137</u>	<u>1,973,296</u>
Net position		
Net investment in capital assets	65,849,227	65,674,683
Restricted	5,899,016	6,379,010
Total net position	<u>\$ 71,748,243</u>	<u>\$ 72,053,693</u>

### Change in Net Position

- **Federal Aid** – Federal Aid funding is awarded for special projects only and is not considered part of our routine operating funding. The availability of funding provided for in the Federal Transportation budget and the existence of projects that are eligible for such funding opportunities will fluctuate year to year in this classification. The Road Commission received \$795,580 from a variety of Federal Funding sources in 2013. This represents a decrease of \$1,289,163 from 2012.

Although substantial, the decrease in 2013 does not indicate a loss of Federal funding opportunities. There were several factors that contributed to the reduction. The Road Commission's budget for 2013 included \$2,138,815 in Federal funding, but delays in project starts resulted in projects being carried over to the 2014 fiscal year. Additionally, the funding of two bridge projects was switched by the State from a combination of Federal (80%) and State (15%) funding to 95% from the State and accounted for the majority of the difference.

In the original 2013 budget, the two bridge projects on Ellis and Maple Island Roads were budgeted to have \$644,000 of Federal Aid but when the contracts were awarded the State allocated all State funds for the 95% match. The Giles Road project was completely carried over to the 2014 fiscal year which represented another reduction in Federal funding for 2013 by the budgeted amount of \$380,000. The Maple Island Road project between Wilson and Sternberg Roads had a delayed start so the majority of the budgeted Federal funds of \$351,815 also were carried over to 2014.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

Federal Aid in the form of Surface Transportation Program (STP) funding was received for the following resurfacing projects in 2013: Mill Iron Road \$262,464; Sheridan Road \$225,118; Maple Island – Wilson to Sternberg \$14,080 (balance of project was carried forward to 2014) and the final costs for two projects from 2012 \$47,156.

In addition to receiving Federal Aid from the usual funding sources such as the Surface Transportation Program (STP) and Critical Bridge programs the Road Commission also received funding from two other unusual sources. In April 2013, certain Michigan counties sustained significant damage from flooding and were subsequently awarded FEMA funding to provide assistance with the additional costs agencies incurred to remove debris and repair the flood damage to roadways and drainage systems. The Road Commission received \$109,866 of FEMA funding for work completed in 2013 and will receive additional funding in 2014 for several other culvert replacement projects. The total Federal Aid received in 2013 also included \$140,229 of Congestion Mitigation & Air Quality (CMAQ) funding for the Bike Path along M-120 in Muskegon Township for which the Road Commission acted as a pass thru agency.

- **State Aid** – The main source of state aid that the Road Commission receives comes from the Michigan Transportation Fund (MTF). The Road Commission's allotment from MTF of \$9,164,708 was only a slight increase (1.58%) over the previous year. When preparing our budget we always forecast conservatively using MDOT's projection, which was a 3% decline in revenue collection. Due to the delay in receiving our final allotments of MTF (the last payment for our fiscal year that ends on September 30 is not received until November) it is difficult for road agencies to adequately make the most of the change during the current fiscal year. As previously noted, the trends in revenue collection have become increasingly difficult to predict and we continue to be conservative in forecasting. It must also be noted here that road agencies in Michigan are still facing a precarious future with rapidly declining roads and bridges and a funding mechanism that is hopelessly flawed. Unless significant changes are made in the State's revenue collection and allocation methods the roads our motorists drive on now are as good as they will ever be.

Another source of State Aid is special project funding and as mentioned above in Federal Aid this funding source fluctuates depending on the State's budget and project eligibility. In 2013, the Road Commission received \$137,132 in State Critical Bridge Funds. These Primary Critical Bridge funds were used as follows: the Ellis Road Bridge over Crockery Creek \$80,303 and the Maple Island Road Bridge over Muskegon River \$56,829.

MDOT participated in the construction of the Whitehall Salt shed that was built in 2013. Their contribution was \$322,224. MDOT computes their initial participation in the construction costs based on the average salt usage on state trunklines for the five year period before construction which in this case was 53%. A final adjustment for their participation will be computed on MDOT's actual salt usage for the five year period following construction.

The final source of revenue received from the State was a grant from the Department of Environmental Quality (DEQ) for \$107,770. The grant was a 50/50 match on 3 projects using ground tires in a rubber modified asphalt chip seal. This application was used on Getty Street, Riley Thompson and Russell Roads.

- **Contributions from Local Units** – The Road Commission's major source of revenue is from MTF funds. The collection of revenue, the distribution of the revenue to participating entities and how it can be used by the recipients is dictated by Public ACT 51. MTF disbursements are broken down by Primary and Local allocations. Recipients must use these funds for the purposes dictated by ACT 51. With those constraints coupled with multiple years of flat revenue growth and spiraling material costs it is impossible for the Road Commission to adequately maintain our local road system without outside participation. In 2013, eleven Townships partnered with the Road Commission on road projects totaling \$577,554. One road project was funded by the residents on Ellis Road in the amount of \$113,152. The balance of this item came from contributions from Muskegon Township for the Bike Path along M-120 for which the Road Commission acted as the pass thru agency.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

- **Charges for Services** – This funding source consists of two major activities. The Michigan Department of Transportation (MDOT) contracts with the Road Commission to perform year round maintenance on the state highways in Muskegon County. Typically, the amount of the contract is fairly stable from year to year. MDOT reimbursed MCRC \$2,176,078 in 2013. The trunkline budget for most functions is fairly consistent from year to year with the exception of winter operations. In 2013, the cost of winter operations on state trunklines was \$941,770 which was \$449,450 higher than 2012.

The other significant item in this category is the charges for the services and materials that other entities (besides MDOT) subcontract with the Road Commission to provide. In 2009, the Road Commission partnered with several other municipalities to form a Signal Maintenance Consortium to handle all routine and emergency repairs on the signals throughout the county. All billings for these activities are processed through the Road Commission. Ottawa and Newaygo County Road Commissions contracted with Muskegon to perform chip seal operations in their counties. The billings for these activities equaled \$231,448.

- **Investment Earnings** – The combination of lower cash and cash equivalent balances than last year and the sustained decline in interest rates accounts for the reduction in the investment earnings.
- **General Revenue – Other** – The significant item in this category is the reimbursement from Zurich Insurance Company for remediation of a free product release at our Muskegon facility. Remediation costs are dropping on this project but will be ongoing until the State deems that the cleanup efforts meet their criteria.

A summary of changes in net position is as follows:

	2013	2012
Revenues		
Program revenues		
Licenses and permits	\$ 31,999	\$ 41,258
Federal aid	795,580	2,084,743
State aid	9,736,795	9,376,132
Contributions from local units and private sources	732,452	1,079,544
Charges for services	2,843,044	2,665,422
Investment earnings	5,744	11,199
General revenues		
Gain on disposal of capital assets	43,661	42,642
Other	134,558	97,306
Total revenues	<u>14,323,833</u>	<u>15,398,246</u>
Expenses		
Primary roads	6,733,910	6,314,558
Local roads	4,410,461	4,437,371
State trunkline	2,137,251	1,989,406
Net administrative	489,210	441,199
Reimbursable services	842,226	626,409
Interest on long term debt	16,225	21,073
Total expenses	<u>14,629,283</u>	<u>13,830,016</u>
Change in net position	(305,450)	1,568,230
Net position at beginning of year, as restated	<u>72,053,693</u>	<u>70,485,463</u>
Net position at end of year	<u>\$ 71,748,243</u>	<u>\$ 72,053,693</u>

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended September 30, 2013, the fund balance of the General Operations Fund decreased by \$635,910, as compared to an increase of \$75,794 in the prior year.

Total operating revenues were \$14,323,833 a decrease of \$1,074,413 as compared to last year. The net decrease in operating revenues is the combined changes to four categories. Revenues from Federal Aid and Contributions from Local Units and Privates Sources decreased by \$1,636,255. State Aid and Charges for Services increased by \$538,285. The changes in these categories were detailed in the above narrative. The fluctuations in other revenue categories were minor.

Total expenditures for fiscal 2013 were \$14,959,743, as compared to \$15,322,452 in 2012 resulting in a net decrease of \$362,709. Expenditures in Public Works decreased by \$1,412,117 in 2013. The reduction in Primary and Local Preservation projects of \$2,199,843 was offset by an increase in Routine Primary and Local Road Maintenance of \$700,985. Routine maintenance increased in 2013 due to higher winter operation costs. Winter operations costs in 2013 were \$723,829 higher than 2012. As noted above, fewer Preservation projects on both the Primary and Local systems were completed in 2013 which attributed to the reduction in costs.

In 2013, Capital purchases exceeded Equipment Retirements and Depreciation combined by \$1,013,601 which is \$1,076,476 more than 2012.

Total expenditures were more than reported operating revenues for 2013 resulting in a decrease to the Road Commission's fund balance of \$635,910.

A summary of changes in the General Operations Fund are as follows:

	<u>2013</u>	<u>2012</u>
Revenues		
Licenses and permits	\$ 31,999	\$ 41,258
Federal aid	795,580	2,084,743
State aid	9,736,795	9,376,132
Contributions from local units	732,452	1,054,361
Charges for services	2,843,044	2,665,422
Investment earnings	5,744	11,199
Other revenue	178,219	165,131
Total revenues	<u>14,323,833</u>	<u>15,398,246</u>
Expenditures		
Public works	13,710,571	15,122,688
Capital outlay (net)	1,013,601	(62,875)
Debt service	235,571	262,639
Total expenditures	<u>14,959,743</u>	<u>15,322,452</u>
Net change in fund balance	(635,910)	75,794
Fund balance at beginning of year	<u>6,341,398</u>	<u>6,265,604</u>
Fund balance at end of year	<u>\$ 5,705,488</u>	<u>\$ 6,341,398</u>

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### BUDGETARY HIGHLIGHTS

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

The 2012/2013 budget was amended twice during the course of the fiscal year. The first amendment was made in April to transfer excess funds from Local Routine Maintenance to Primary Routine Maintenance in the amount of \$290,000. The excess came from the Winter Operations line item in the Local budget and was transferred to the Chip Seal line item in the Primary budget. The transfer did not change the total budget for expenditures or have an impact on the Change in Available Operating Funds.

The second budget adjustment was made in September in an attempt to anticipate actual revenue and expenses.

MTF revenues are traditionally forecasted conservatively as many factors affect the motoring public's consumption of fuel and vehicle purchases and thus impact the revenues generated by fuel and license sales. The MTF revenues budget was increased by \$71,400 because revenues did not decrease as originally forecasted. Budget changes were made to reflect the estimated impact of many situations that occurred during the year. MDOT had forecasted a slight reduction in MTF revenue for the 2012/2013 fiscal year but as previously noted it is very difficult to predict all the ups and downs that ultimately effect motorist's fuel consumption. The final MTF revenue figures were a slight increase over 2011/2012 of 1.58%.

Federal and State Aid were decreased by \$(1,719,250) as only two projects of the six projects that were slated to be done in 2013 were completed with the rest carried forward to 2014. The Maple Island Road resurfacing project began on September 30 with very few costs incurred in 2013 and was finished in October. The Giles Road project was carried over to the 2014 construction budget as it was bid late in the fiscal year and was not awarded in time to begin before the 2013 fiscal year ended. The two bridge projects were started in 2013 and will be finished in the spring of 2014.

Revenue from MDOT for trunkline maintenance was increased by \$271,300 to reflect the increase in winter operations cost.

Primary Preservation costs were reduced by \$2,599,780. The delayed projects listed above accounted for the decrease in this line item. Other Receivables were increased by \$300,000 to accommodate the additional requests received during the year to provide services to other entities. Road Equipment expenditures were increased by \$360,000 to account for equipment carried over from the 2012 budget due to the manufacturer's inability to complete and ship our orders. Other Capital Expenditures were increased by \$183,900 to accommodate the additional allocation of funds to upgrade the phone system that was 35 years old, to make unforeseen repairs to the Soil Vapor Extraction (SVE) unit and for the completion of the Whitehall Salt Shed. A partial allocation of funds for the construction of the Salt Shed was added to the 2012 budget because the contract was approved by the Board in September of 2012 and the intent was to begin construction before the end of the 2012 fiscal year-end but that didn't transpire so the funds were brought forward to 2013.

We realize the importance of making a plan and sticking to it however in these difficult times we feel that in order to maximize every opportunity we must be open to adjusting our plan. The Road Commission staff at all levels is committed to this mission. When staff prepares a preservation and maintenance plan or equipment budget for any given year it is with the knowledge that actual winter operations costs, bid prices on materials and services and the participation of other entities will ultimately affect the ability of the plan to go forward.



# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

The final amended expenditures budget for the year ended September 30, 2013 was decreased by \$(1,717,080) from the original budget. The adjustments in both revenues and expenses were fairly consistent and reflected the changes to revenue generation and the additional related expenses for the changes in our maintenance and preservation operations.

Again this year staff had to be very adaptable to changes in reality and opportunities. Each year brings new challenges. While the composition of the changes may change they all have similar impact - reduced revenues from MTF, increased material and service costs and increasing maintenance demands on an aging road system.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

	<u>2013</u>	<u>2012</u>
Capital assets, not being depreciated		
Land and improvements	\$ 24,723,713	\$ 24,539,094
Capital assets being depreciated		
Land improvements	62,094	49,540
Buildings and improvements	4,796,863	4,769,247
Road equipment	11,793,951	11,080,645
Other equipment	3,201,527	2,445,370
Infrastructure and improvements	<u>65,038,019</u>	<u>65,310,048</u>
Total capital assets being depreciated	84,892,454	83,654,850
Less accumulated depreciation	<u>(43,566,940)</u>	<u>(42,099,915)</u>
Total capital assets, being depreciated, net	<u>41,325,514</u>	<u>41,554,935</u>
Total capital assets, net	<u>\$ 66,049,227</u>	<u>\$ 66,094,029</u>

Current year's major additions included the following:

Preservation and Bridge projects	\$ 2,138,583
Trucks and Equipment Purchases	1,292,954
Whitehall Salt Shed Construction	743,130

Additional information on capital assets can be found in note D of the notes to financial statements.

#### Debt

As of September 30, 2013, the Road Commission had \$551,597 in long-term debt outstanding. This is a decrease of \$205,855, which occurred due to normal debt repayments. The long-term debt outstanding is comprised of Michigan Transportation Fund notes of \$200,000 and compensated absences of \$351,597.

Additional information on long-term debt can be found in note E of the notes to the financial statements.

# **MUSKEGON COUNTY ROAD COMMISSION**

## **Management's Discussion and Analysis**

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Developing the annual budget is perhaps one of the most significant tasks that the Road Commissioners and Road Commission Staff perform on a yearly basis. The budget serves as a statement to the community of our priorities, and can be viewed as the major overall policy document. The budget, in general, denotes which services the Board deems most significant and important to the motoring public. This budget attempts to focus on and optimize pavement preservation of the existing system utilizing asset management concepts and the mix of fixes through superior routine and heavy maintenance utilizing best industry practices.

The 2013/2014 budget, as presented, reflects a continued trend of declining or stagnant revenue. We are anticipating flat revenues, which will be the ninth consecutive year of flat or diminished revenue. In fact the revenue we anticipate is less than what we received in 1997, the year of the last gas tax increase. On the expense side we again anticipate price increases greater than the rate of inflation for many of the high volume items used in our business, which also continues a pattern established several years ago. Pressures on both sides of the financial ledger continue to diminish our ability to enhance and maintain the public highway system in Muskegon County and force us to make choices that are less than desirable on many levels. Quite simply put, the public highway system continues to degrade faster than our ability to repair, maintain and rebuild it, not through lack of effort, but primarily due to lack of revenue for the size of our existing road system.

The budget as presented is our best attempt to optimize the financial resources that we do get to preserve and maintain the system. Several items to highlight in the proposed budget include the primary road construction and preservation projects, including 1 mile of Ellis Road in Ravenna Township, 1.44 miles of Giles Road in Muskegon Township, 2.5 miles of Maple Island Road in Sullivan Township, 1.15 miles of Sheridan Road and Hile Road in Fruitport Township. On the local road system we are anticipating a project on Staple Road in cooperation with Dalton Township and anticipate that there will be several other local road projects with various townships that are as yet unidentified. We also have received funding for experimental projects on 3 miles of Goebel Road in Moorland Township and 1 mile of Ellis Road in Ravenna Township using rubber modified asphalt. The budget includes funding for 40 miles of chip seal on the primary system and 15 miles of local roads through township partnerships.

Given the tremendous need and continued deterioration of the system, and despite our continued best efforts at preservation, there is clear evidence that the system of financing our public highway system in Michigan is severely broken. We urge readers to renew efforts at educating and convincing those elected officials, federal, state, and local that hold the statutory ability to fix or change the system to do so while we still have something to work with.

### **CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department at the Muskegon County Road Commission administrative offices at 7700 East Apple Avenue, Muskegon, Michigan 49442.

**BRICKLEY DELONG**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

December 16, 2013

Board of County Road Commissioners  
Muskegon County Road Commission  
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Muskegon County Road Commission, a component unit of the County of Muskegon, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BRICKLEY DELONG

Board of County Road Commissioners  
Muskegon County Road Commission  
December 16, 2013  
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**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Muskegon County Road Commission, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and schedule of funding progress on pages i - viii and 24 – 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Supplemental Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Muskegon County Road Commission's basic financial statements. The accompanying other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Muskegon, Michigan

Muskegon County Road Commission  
**STATEMENT OF NET POSITION**  
September 30, 2013

**ASSETS**

Current assets	
Cash and investments	\$ 2,223,453
Accounts receivable	
Federal	109,866
State trunkline maintenance	69,816
State Department of Transportation	
Michigan Transportation Fund	1,555,821
Other	12,503
State Department of Environmental Quality	107,770
Due on county road agreements	364,245
Site remediation	186,954
Other	380,982
Inventories	
Road materials	1,339,934
Equipment materials and parts	598,551
Prepaid items	153,133
Total current assets	7,103,028
Noncurrent assets	
Capital assets, net	
Nondepreciable	24,723,713
Depreciable	41,325,514
Net pension asset	432,430
Net other postemployment benefits asset	112,695
Total noncurrent assets	66,594,352
Total assets	73,697,380

**LIABILITIES**

Current Liabilities	
Accounts payable	513,126
Accrued liabilities	132,736
Bonds payable - due within one year	200,000
Compensated absences - due within one year	216,000
Total current liabilities	1,061,862
Noncurrent Liabilities	
Advances	
State trunkline	
Equipment purchase	315,779
Maintenance	167,255
Unearned revenues - forest roads	268,644
Compensated absences - less amounts due within one year	135,597
Total noncurrent liabilities	887,275
Total liabilities	1,949,137

**NET POSITION**

Net investment in capital assets	65,849,227
Restricted for county roads	5,899,016
Total net position	\$ 71,748,243

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2013

Program expenses	
Primary road routine and preventative maintenance	\$ 6,733,910
Local road routine and preventative maintenance	4,410,461
State trunkline	2,137,251
Net administrative	489,210
Reimbursable services	842,226
Interest on long-term debt	16,225
Total program expenses	<u>14,629,283</u>
Program revenues	
Charges for services	
Licenses and permits	31,999
Charges for services	2,843,044
Operating grants and contributions	
Michigan Transportation Funds	9,164,708
Investment earnings	5,744
Capital grants and contributions	
Federal grants	795,580
State grants	572,087
Contributions from local units	732,452
Total program revenues	<u>14,145,614</u>
Net program revenues	(483,669)
General revenues	
Gain on disposal of capital assets	43,661
Other	134,558
Total general revenues	<u>178,219</u>
Change in net position	(305,450)
Net position at October 1, 2012, as restated	<u>72,053,693</u>
Net position at September 30, 2013	<u><u>\$ 71,748,243</u></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**BALANCE SHEET**  
September 30, 2013

	<b>General Operations Fund</b>
<b>ASSETS</b>	
Cash and investments	\$ 2,223,453
Receivables	
Federal	109,866
State trunkline maintenance	69,816
State Department of Transportation	
Michigan Transportation Fund	1,555,821
Other	12,503
State Department of Environmental Quality	107,770
Due on county road agreements	364,245
Site remediation	186,954
Other	380,982
Inventories	
Road materials	1,339,934
Equipment materials and parts	598,551
Prepaid items	153,133
Total assets	<b>\$ 7,103,028</b>
 <b>LIABILITIES</b>	
Accounts payable	\$ 513,126
Accrued liabilities	132,736
Advances	
State trunkline	
Equipment purchase	315,779
Maintenance	167,255
Unearned revenues - forest roads	268,644
Total liabilities	1,397,540
 <b>FUND BALANCE</b>	
Nonspendable	
Inventories	1,938,485
Prepaid items	153,133
Restricted for county roads	3,613,870
Total fund balance	5,705,488
Total liabilities and fund balance	<b>\$ 7,103,028</b>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**  
 September 30, 2013

Total fund balance—governmental funds		\$ 5,705,488
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Certain assets are not available resources and, therefore, are not reported in the governmental funds.		
Net pension asset	\$ 432,430	
Net other postemployment benefits asset	<u>112,695</u>	545,125
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Cost of capital assets	109,616,167	
Accumulated depreciation	<u>(43,566,940)</u>	66,049,227
Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable	(200,000)	
Compensated absences	<u>(351,597)</u>	<u>(551,597)</u>
Net position of governmental activities		<u><u>\$ 71,748,243</u></u>

The accompanying notes are an integral part of this statement.



Muskegon County Road Commission  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
For the year ended September 30, 2013

	<u>General Operations Fund</u>
<b>REVENUES</b>	
Licenses and permits	\$ 31,999
Federal aid	795,580
State aid	9,736,795
Contributions from local units	732,452
Charges for services	2,843,044
Investment earnings	5,744
Other revenue	<u>178,219</u>
Total revenues	14,323,833
<b>EXPENDITURES</b>	
Current	
Public works	13,710,571
Capital outlay (net)	1,013,601
Debt service	<u>235,571</u>
Total expenditures	<u>14,959,743</u>
Net change in fund balance	(635,910)
Fund balance at October 1, 2012	<u>6,341,398</u>
Fund balance at September 30, 2013	<u><b>\$ 5,705,488</b></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2013

Net change in fund balance—total governmental funds \$ (635,910)

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

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (4,284,454)	
Capital outlay	<u>4,239,665</u>	(44,789)

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the remaining undepreciated cost of the capital assets sold. (13)

The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Repayment of principal on long-term debt		219,346
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in net pension asset	175,609	
Change in other postemployment benefits	(6,202)	
Change in compensated absences	<u>(13,491)</u>	<u>155,916</u>

Change in net position of governmental activities		<u><u>\$ (305,450)</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Muskegon County Road Commission (Road Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Road Commission's accounting policies are described below.

**Reporting Entity**

The Muskegon County Road Commission (Road Commission), which is established pursuant to the County Road Law (MCL 224.1), is governed by a five-member Board of County Road Commissioners appointed by the Muskegon County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the Muskegon County Board of Commissioners' approval.

Generally accepted accounting principles require that if an entity is considered to be financially accountable for other organizations, those organizations should be included as component units in the entity's financial statements. Based on the above criteria, these financial statements present the Muskegon County Road Commission, a discretely presented component unit of the County of Muskegon. No organizations meet this criterion for the Road Commission and therefore none are included in the financial statements.

The Road Commission General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission's General Operations Fund.

**Basis of Presentation—Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the activities of the Road Commission. Governmental activities, which are normally supported by intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for external customers for support. The Road Commission does not have any business-type activities.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds columns.

The fund financial statements provide information about the Road Commission's governmental funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Road Commission only has one fund, no separate columns have been provided.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***Cash and Investments***

The Road Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Road Commission are reported at fair value (generally based on quoted market prices).

The Road Commission has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Road Commission to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Inventories and Prepaid Items***

All inventories are priced at cost as determined on the average unit cost method. The cost of such inventories is charged to road construction and maintenance, equipment repairs, and operations when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges 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 two years. Road equipment, which are charged to projects based on the State-approved rental rate structure, have no minimum capitalization cost.

In the case of the initial capitalization of general infrastructure assets, the Road Commission chose to include all such items regardless of their acquisition date or amount. The Road Commission was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the Road Commission.

As the Road Commission constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	25 - 50
Road equipment	5 - 8
Other equipment	4 - 20
Infrastructure and improvements - roads	8 - 30
Infrastructure and improvements - bridges	25 - 50

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Deferred Outflows/Inflows of Resources***

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

***Net Position Flow Assumption***

Sometime the Road Commission will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

***Fund Balance Flow Assumptions***

Sometimes the Road Commission will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Fund Balance Flow Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Road Commission itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Road Commission's highest level of decision-making authority. The Board of County Road Commissioners is the highest level of decision-making authority for the Road Commission that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Fund Balance Flow Policies—Continued***

Amounts in the assigned fund balance classification are intended to be used by the Road Commission for specific purposes but do not meet the criteria to be classified as committed. The Board of County Road Commissioners has by resolution authorized the managing director to assign fund balance. The Board of County Road Commissioners may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Revenues and Expenditures/Expenses**

***Program Revenues***

Amounts reported as programs revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

***Compensated Absences***

Road Commission employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Budgetary procedures are established pursuant to Act 621 PA 1978, as amended, (MCL 141.421) which requires the commissioners to approve a budget for the General Operations Fund. Pursuant to the Act, the Road Commission follows these procedures in establishing the budgetary information provided in the financial statements:

- a. The director of financial services submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted at the Road Commission to obtain public comments.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Budgetary Information—Continued**

- c. Prior to September 30, the budget and annual appropriations are legally adopted by the Board of Commissioners.
- d. Formal budget integration is employed as a management control device during the year for the General Operations Fund.
- e. Budgets as presented are prepared on the modified accrual basis of accounting.
- f. Budgetary control is exercised at the category level.
- g. The budgetary information presented can be amended during the year by an official action of the Board of Commissioners.
- h. All budget appropriations lapse at year end.

**Excess of Expenditures Over Appropriations**

During the year ended September 30, 2013, actual expenditures exceeded appropriations for equipment expenditures by \$79,343. These overexpenditures were funded with available fund balance.

**NOTE C—DEPOSITS AND INVESTMENTS**

**Deposit and Investment Risks**

***Interest Rate Risk***

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Credit Risk***

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

***Concentration of Credit Risk***

The Road Commission does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

***Custodial Credit Risk – Deposits***

In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. As of September 30, 2013, \$2,302,102 of the Road Commission's bank balance of \$2,552,102 was exposed to custodial credit risk because it was uninsured and uncollateralized.



Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

***Custodial Credit Risk – Investments***

The Road Commission does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

***Foreign Currency Risk***

The Road Commission is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2013 was as follows:

	<b>Balance October 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2013</b>
<b>Capital assets, not being depreciated:</b>				
Land and improvements	\$ 24,539,094	\$ 184,619	\$ -	\$ 24,723,713
<b>Capital assets, being depreciated:</b>				
Land improvements	49,540	12,554	-	62,094
Buildings and improvements	4,769,247	27,616	-	4,796,863
Road equipment	11,080,645	1,292,954	579,648	11,793,951
Other equipment	2,445,370	767,958	11,801	3,201,527
Infrastructure and improvements	65,310,048	1,953,964	2,225,993	65,038,019
Total capital assets, being depreciated	83,654,850	4,055,046	2,817,442	84,892,454
<b>Less accumulated depreciation:</b>				
Land improvements	35,677	3,050	-	38,727
Buildings and improvements	3,006,423	133,662	-	3,140,085
Road equipment	9,400,961	829,475	579,635	9,650,801
Other equipment	1,304,358	303,188	11,801	1,595,745
Infrastructure and improvements	28,352,496	3,015,079	2,225,993	29,141,582
Total accumulated depreciation	42,099,915	4,284,454	2,817,429	43,566,940
Total capital assets, being depreciated, net	41,554,935	(229,408)	13	41,325,514
Capital assets, net	<b>\$ 66,094,029</b>	<b>\$ (44,789)</b>	<b>\$ 13</b>	<b>\$ 66,049,227</b>

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE D—CAPITAL ASSETS—Continued**

**Depreciation**

Depreciation expense has been charged to programs of the Road Commission as follows:

**Governmental activities:**

Primary road	\$ 2,791,540
Local road	1,203,267
State trunkline	225,759
Administrative	63,888
	<b>\$ 4,284,454</b>

**NOTE E—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Road Commission for the year ended September 30, 2013:

	<b>Balance October 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance September 30, 2013</b>	<b>Due Within One Year</b>
Michigan Transportation Fund					
Notes	\$ 400,000	\$ -	\$ 200,000	\$ 200,000	\$ 200,000
Capital leases	19,346	-	19,346	-	-
Compensated absences	338,106	439,380	425,889	351,597	216,000
Governmental activities long-term liabilities	<b>\$ 757,452</b>	<b>\$ 439,380</b>	<b>\$ 645,235</b>	<b>\$ 551,597</b>	<b>\$ 416,000</b>

**Michigan Transportation Fund Notes:**

\$2,000,000 Michigan Transportation Fund Notes, Series 2004;  
final payment of \$200,000 due August 2014; interest at 4% \$ 200,000

**Compensated absences** 351,597  
**\$ 551,597**

Annual debt service requirements to maturity for debt outstanding as of September 30, 2013 follow:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 200,000	\$ 8,000

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**Defined Benefit Pension Plan**

***Plan Description***

The Road Commission is in an agent multiple-employer defined benefit pension plan (Plan) with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Road Commission. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon County Road Commission  
7700 East Apple Avenue  
Muskegon, MI 49442

***Funding Policy***

Plan members are not required to contribute to the Plan. The Road Commission is required to contribute at an actuarially-determined rate; the current rate is 12.24 to 30.82 percent of annual covered payroll depending on the Plan. The contributions requirements of plan members and the Road Commission are established and may be amended by the Road Commission depending on the MERS contribution program adopted by the Road Commission.

***Annual Pension Cost and Net Pension Asset***

For the year ended September 30, 2013, the Road Commission's annual pension cost was approximately \$596,000 which was equal to the Road Commission's required contribution. The Road Commission's actual contribution was \$200,000 greater than the required contribution. The following table shows the components of the Road Commission's annual pension cost for the year, the amount actually contributed, and changes in the Road Commission's net pension asset:

Annual required contribution	\$ 596,226
Interest on net pension asset	(20,546)
Adjustment to annual required contribution	<u>44,937</u>
Annual pension cost	620,617
Contributions made	<u>796,226</u>
Increase in net pension asset	175,609
Net pension asset at beginning of year	<u>256,821</u>
Net pension asset at end of year	<u><b>\$ 432,430</b></u>

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**Defined Benefit Pension Plan—Continued**

**Three-Year Trend Information for MERS**

<u>Year Ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
09/30/11	\$ 549,000	127 %	\$ 285,016
09/30/12	562,000	100	256,821
09/30/13	596,000	134	432,430

The required contribution was determined by an actuarial valuation of the Plan as of December 31, 2010. The employer contribution rate has been determined using the entry age normal cost funding method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 13 percent, and (c) 1 percent to 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010 was 28 years. This period will be reduced by one year in each of the next eight valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

***Funding Status and Funding Progress***

As of December 31, 2012, the most recent actuarial valuation date, the plan was 74 percent funded. The actuarial accrued liability for benefits was approximately \$21,293,000, and the actuarial value of assets was approximately \$15,750,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$5,543,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,353,000, and the ratio of the UAAL to the covered payroll was 165 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Road Commission employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE G—OTHER POST-EMPLOYMENT BENEFITS**

**Retiree Healthcare Plan**

***Plan Description***

The Road Commission has a retiree healthcare funding vehicle (OPEB Plan) administered by the Burnham and Flower Group. The retiree healthcare funding vehicle is established under the authority of section 115 of the IRS code and is exempt from taxation. The OPEB Plan provides health insurance to eligible retirees. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the OPEB Plan to the respective employer entities; that authority rests with the Road Commission. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon County Road Commission  
7700 East Apple Avenue  
Muskegon, MI 49442

***Funding Policy***

The contribution requirements of plan members and the Road Commission are established and may be amended by the Board of County Road Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Road Commission. For the year ended September 30, 2013, the Road Commission contributed \$207,983 to the OPEB Plan, of which \$106,233 were direct payments to retirees and \$101,750 were contributed to the trust, which is 100% of the OPEB cost.

***Annual OPEB Cost and Net OPEB Obligation***

The Road Commission’s OPEB expense is calculated based on the ARC, an actuarially-determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Road Commission’s annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the Road Commission’s net OPEB obligation:

Annual required contribution	\$ 207,983
Interest on net OPEB asset	(8,917)
Adjustment to annual required contribution	15,119
Net OPEB cost	214,185
Payments made to or on behalf of retirees	106,233
Contributions made to OPEB trust	101,750
Decrease in net OPEB asset	(6,202)
Net OPEB asset at beginning of year	118,897
Net OPEB asset at end of year	<b>\$ 112,695</b>

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
 September 30, 2013

**NOTE G—OTHER POST-EMPLOYMENT BENEFITS—Continued**

**Retiree Healthcare Plan—Continued**

**Trend Information**

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
09/30/11	\$ 274,930	98 %	\$ 124,533
09/30/12	272,384	98	118,897
09/30/13	214,185	97	112,695

***Actuarial Methods and Assumptions***

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. Actuarially determined amounts 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 OPEB Plan as understood by the employer and OPEB Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of OPEB Plan members not contributing to the OPEB Plan. 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.

The required contribution was determined as part of the September 30, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after 4 years. Both rates include a 5 percent inflation assumption. The OPEB Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2013 is 11 years.

***Funded Status and Progress***

As of September 30, 2013, the most recent actuarial valuation date, the OPEB Plan was 51 percent funded. The actuarial accrued liability for benefits was approximately \$2,037,000, and the actuarial value of assets was approximately \$1,046,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$991,000. Information on the covered payroll (annual payroll of active employees covered by the OPEB Plan) and the ratio of the UAAL to the covered payroll was not available.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE H—OTHER INFORMATION**

**Risk Management**

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a trust fund established by the road commissions in the State of Michigan. The MCRCSIP is a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to MCRCSIP for its general liability coverage. The MCRCSIP is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission manages its workers' compensation risk by participating in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Road Commission pays an annual premium to CRASIF for its workers' compensation coverage. The CRASIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and carrying reinsurance through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission carries commercial insurance for employee health and accident insurance and for fuel storage tank systems. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE I—COMMITMENTS**

**Lease Commitments**

The Road Commission leased certain road equipment under operating leases that expired during the year ended September 30, 2013. Lease expense for the year ended September 30, 2013 was \$58,034.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE J—FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2013, the federal aid received and expended by the Road Commission was \$687,260 for contracted projects and \$108,320 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

**NOTE K—PRIOR PERIOD ADJUSTMENT**

The net position of the governmental activities was restated to reflect the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which require that bond issuance costs be recognized as an expense in the period incurred.

The restatement of the beginning of the year net position is as follows:

	<b>Governmental Activities</b>
Net position at October 1, 2012	\$ 72,060,874
Bond issuance costs	(7,181)
Net position at October 1, 2012, as restated	<b>\$ 72,053,693</b>

The effect on the change in net position of the prior year is as follows:

	<b>Governmental Activities</b>
Change in net position - September 30, 2012, as previously reported	\$ 1,564,640
Amortization of bond issuance costs	3,590
Change in net position - September 30, 2012, as restated	<b>\$ 1,568,230</b>

**NOTE L—UPCOMING ACCOUNTING PRONOUNCEMENT**

GASB Statement 68—*Accounting and Financial Reporting for Pensions* was issued by the GASB in June 2012 and will be effective for the Road Commission's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their Statement of Net Position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.



**REQUIRED SUPPLEMENTARY INFORMATION**

Muskegon County Road Commission  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
**SCHEDULE OF REVENUES**  
General Operations Fund  
For the year ended September 30, 2013

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget- Positive (Negative)</b>
Licenses and permits	\$ 30,000	\$ 30,000	\$ 31,999	\$ 1,999
Federal aid				
Surface Transportation Program	2,071,550	352,300	547,013	194,713
Economic development "D" funds	-	-	18	18
Federal Emergency Management Agency	110,000	110,000	109,866	(134)
Other	140,000	140,000	138,683	(1,317)
State aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Urban road	1,280,000	1,280,000	1,283,024	3,024
Allocation	7,609,500	7,680,900	7,790,698	109,798
Snow removal	80,000	80,986	80,986	-
Critical Bridge	140,000	140,000	137,132	(2,868)
Other	400,000	400,000	429,995	29,995
Economic development				
Rural primary	5,000	5,000	5,346	346
Other - Local Jobs Today	-	-	(386)	(386)
Contributions from local units				
Townships	680,000	484,500	577,554	93,054
Other private sources	155,000	155,000	154,898	(102)
Charges for services				
State trunkline				
Maintenance	1,882,000	2,153,300	2,158,002	4,702
Nonmaintenance	18,000	18,000	18,076	76
Salvage sales	20,000	20,000	20,348	348
Other	1,059,700	1,066,200	646,618	(419,582)
Investment earnings	14,000	5,700	5,744	44
Other revenue				
Gain on disposal of capital assets	-	-	43,661	43,661
Other	-	10,100	134,558	124,458
Total operating revenues	15,704,750	14,141,986	<b>\$ 14,323,833</b>	<b>\$ 181,847</b>
Fund balance at October 1, 2012	6,341,398	6,341,398		
Total budget	<b>\$ 22,046,148</b>	<b>\$ 20,483,384</b>		

Muskegon County Road Commission  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
**SCHEDULE OF EXPENDITURES**  
General Operations Fund  
For the year ended September 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget- Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Current				
Public works				
Primary road				
Construction	\$ -	\$ 2,800	\$ 2,368	\$ 432
Preservation/Structural Improvements	3,986,180	1,386,400	1,154,406	231,994
Routine and Preventive Maintenance	4,029,600	4,308,600	4,324,908	(16,308)
Local road				
Preservation/Structural Improvements	860,200	1,060,600	981,809	78,791
Routine and Preventive Maintenance	4,142,250	4,455,050	4,437,348	17,702
State trunkline				
Maintenance	1,882,000	2,114,600	2,119,175	(4,575)
Nonmaintenance	18,000	18,000	18,076	(76)
Equipment expenditures (net)				
Direct	1,725,000	1,773,900	1,869,669	(95,769)
Indirect	1,350,000	1,013,000	1,038,500	(25,500)
Operating	600,000	751,100	712,898	38,202
Less: Equipment rentals	(3,005,000)	(3,360,800)	(3,364,524)	3,724
Total equipment expenditures (net)	670,000	177,200	256,543	(79,343)
Administrative expenditures (net)				
Administrative expenditures	673,000	590,900	604,823	(13,923)
Less: Handling charges	(10,000)	(10,000)	(10,512)	512
Overhead - state	(165,000)	(165,000)	(167,840)	2,840
Other	(10,000)	(10,000)	(10,533)	533
Total administrative expenditures (net)	488,000	405,900	415,938	(10,038)
Capital outlay (net)				
Capital outlay	1,567,400	2,111,300	2,101,082	10,218
Less: Depreciation	(1,000,000)	(1,079,900)	(1,087,468)	7,568
Equipment retirements	-	-	(13)	13
Total capital outlay (net)	567,400	1,031,400	1,013,601	17,799
Debt service				
Principal	254,000	220,000	219,346	654
Interest and fees	16,000	16,000	16,225	(225)
Total expenditures	16,913,630	15,196,550	<b>\$ 14,959,743</b>	<b>\$ 236,807</b>
Fund balance at September 30, 2013	5,705,488	5,705,488		
Total budget	<b>\$ 22,619,118</b>	<b>\$ 20,902,038</b>		

Muskegon County Road Commission  
 Required Supplementary Information  
**SCHEDULE OF FUNDING PROGRESS**  
 For the year ended September 30, 2013

**MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) PENSION PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

*(Dollar amounts in thousands)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
12/31/10	\$ 16,221	\$ 21,117	\$ 4,896	77 %	\$ 3,443	142 %
12/31/11	16,091	21,161	5,070	76	3,239	157
12/31/12	15,750	21,293	5,543	74	3,353	165

**OTHER POSTEMPLOYMENT BENEFITS PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

*(Dollar amounts in thousands)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
9/30/07	\$ -	\$ 2,267	\$ 2,267	- %	\$ 3,372	67 %
9/30/10	253	2,208	1,955	11	not available	not available
9/30/13	1,046	2,037	991	51	not available	not available

**OTHER SUPPLEMENTAL INFORMATION**

Muskegon County Road Commission  
**ANALYSIS OF CHANGES IN FUND BALANCE**  
 General Operations Fund  
 For the year ended September 30, 2013

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Total operating revenues	\$ 14,323,833	\$ 7,593,918	\$ 3,250,817	\$ 3,479,098
Total expenditures	14,959,743	6,619,904	4,873,652	3,466,187
Excess of revenues over (under) expenditures	(635,910)	974,014	(1,622,835)	12,911
Other financing sources (uses)				
Optional transfers in (out)	-	(1,622,835)	1,622,835	-
Net change in fund balance	(635,910)	(648,821)	-	12,911
Fund balance at October 1, 2012	6,341,398	3,787,393	-	2,554,005
Fund balance at September 30, 2013	<b>\$ 5,705,488</b>	<b>\$ 3,138,572</b>	<b>\$ -</b>	<b>\$ 2,566,916</b>

Muskegon County Road Commission  
**ANALYSIS OF REVENUES**  
 General Operations Fund  
 For the year ended September 30, 2013

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Licenses and permits	\$ 31,999	\$ -	\$ -	\$ 31,999
Federal aid				
Surface Transportation Program	547,013	525,310	21,673	30
Economic development "D" funds	18	18	-	-
Federal Emergency Management Agency	109,866	-	-	109,866
Other	138,683	25,772	81,731	31,180
State aid				
Michigan Transportation Fund				
Engineering	10,000	7,363	2,637	-
Urban road	1,283,024	958,934	324,090	-
Allocation	7,790,698	5,736,144	2,054,554	-
Snow removal	80,986	59,629	21,357	-
Local Bridge	137,132	137,132	-	-
Other	429,995	53,659	54,112	322,224
Economic development				
Rural primary	5,346	5,346	-	-
Other	(386)	-	(386)	-
Contributions from local units				
Townships	577,554	-	577,554	-
Other private sources	154,898	41,746	113,152	-
Charges for services				
State trunkline				
Maintenance	2,158,002	-	-	2,158,002
Nonmaintenance	18,076	-	-	18,076
Salvage sales	20,348	-	-	20,348
Other	646,618	12,785	343	633,490
Investment earnings	5,744	3,430	-	2,314
Other revenue				
Gain on disposal of capital assets	43,661	26,650	-	17,011
Other	134,558	-	-	134,558
Total operating revenues	<b>\$ 14,323,833</b>	<b>\$ 7,593,918</b>	<b>\$ 3,250,817</b>	<b>\$ 3,479,098</b>

Muskegon County Road Commission  
**ANALYSIS OF EXPENDITURES**  
 General Operations Fund  
 For the year ended September 30, 2013

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Current				
Public works				
Primary road				
Construction/Capacity Improvements	\$ 2,368	\$ 2,368	\$ -	\$ -
Preservation/Structural Improvements	1,154,406	1,154,406	-	-
Routine and Preventive Maintenance	4,324,908	4,324,908	-	-
Local road				
Preservation/Structural Improvements	981,809	-	981,809	-
Routine and Preventive Maintenance	4,437,348	8,270	3,595,122	833,956
State trunkline				
Maintenance	2,119,175	-	-	2,119,175
Nonmaintenance	18,076	-	-	18,076
Equipment expenditures (net)	256,543	84,597	107,458	64,488
Administrative expenditures (net)	415,938	226,675	189,263	-
Capital outlay (net)	1,013,601	590,991	-	422,610
Debt service				
Principal	219,346	211,554	-	7,792
Interest and fees	16,225	16,135	-	90
Total expenditures	<b><u>\$ 14,959,743</u></b>	<b><u>\$ 6,619,904</u></b>	<b><u>\$ 4,873,652</u></b>	<b><u>\$ 3,466,187</u></b>