

Kalamazoo County Road Commission

**Financial Report
with Supplemental Information
December 31, 2013**

Kalamazoo County Road Commission

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Independent Auditor's Report

To the Board of Directors
Kalamazoo County Road Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the Road Fund of the Kalamazoo County Road Commission (the "Road Commission"), a component unit of Kalamazoo County, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Kalamazoo County Road 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 from 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 opinion.

To the Board of Directors
Kalamazoo County Road Commission

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the Road Fund of the Kalamazoo County Road Commission as of December 31, 2013 and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Road Fund budgetary comparison schedule, and the pension and other postemployment benefit plan schedules of funding progress 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, which 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 supplemental 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kalamazoo County Road Commission's basic financial statements. The other supplemental information, as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates 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, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Morse, PLLC

March 24, 2014

Kalamazoo County Road Commission

Management's Discussion and Analysis

The Kalamazoo County Road Commission (the "Road Commission") is a special purpose government engaged in a single government program of road and bridge maintenance, preservation, and construction for the County of Kalamazoo, Michigan. The Kalamazoo County Road Commission was established by a vote of the citizens of Kalamazoo County in 1909.

The following financial statements are presented in accordance with prescribed methods of accounting. The financial statements related to the governmental fund are prepared in modified accrual format, commonly referred to as governmental fund level accounting. The full accrual method of accounting focuses on the entity as a whole (the Road Commission's net position) and is referred to as government-wide level accounting. The significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and the infrastructure (roads, bridges, and signals). Capital assets and infrastructure costs are expensed when incurred in the governmental fund statements. In the government-wide statements, these costs are capitalized and recognized over their estimated useful lives through depreciation expense.

With respect to the statements of net position and activities, the fund-level financial statements and the government-wide financial statements have been combined and are presented on the same page.

Management's Discussion and Analysis

This section of Kalamazoo County Road Commission's annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year that ended on December 31, 2013. Please read it in conjunction with the Road Commission's basic financial statements, which follow this section.

Using this Annual Report

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplemental information.

The basic financial statements are the governmental fund balance sheet/statement of net position, statement of governmental fund revenue, expenditures, and changes in fund balance/statement of activities, and notes to the financial statements. The notes to the financial statements are an integral part of the document that explain some of the information in the financial statements and provide more detailed data.

Additional data and schedules that further explain and support the information in the financial statements are provided in both the required supplemental information and the other supplemental information.

Kalamazoo County Road Commission

Management's Discussion and Analysis (Continued)

Financial Analysis of the Road Commission as a Whole

The following tables provide condensed information about the Road Commission as of December 31, 2013 and 2012 and for the years then ended. Over time, increases or decreases in the Road Commission's net position may serve as an indicator of the overall financial position. To assess the overall health of the Road Commission, additional nonfinancial factors need to be considered, such as the condition of the roads in our jurisdiction and changes in the laws related to gas taxes and their distribution.

Condensed Statement of Net Position

	December 31	
	2013	2012
Assets		
Other assets	\$ 7,040,893	\$ 6,765,922
Capital assets	115,650,661	116,879,946
Total assets	122,691,554	123,645,868
Liabilities - Current liabilities	772,047	1,322,054
Net Position		
Unrestricted net position	6,268,846	5,443,868
Net investment in capital assets	115,650,661	116,879,946
Total net position	<u>\$ 121,919,507</u>	<u>\$ 122,323,814</u>

Kalamazoo County Road Commission

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Year Ended December 31	
	2013	2012
Revenue		
Intergovernmental	\$ 16,494,210	\$ 18,356,841
Other contributions and service charges	1,020,571	156,912
Other	21,440	31,922
Total revenue	17,536,221	18,545,675
Expenses		
Primary maintenance	4,751,439	4,288,174
Local maintenance	4,624,338	4,722,369
Depreciation	8,214,290	7,898,547
Administrative	979,679	907,690
Equipment rental and other charges	(716,553)	(417,853)
Nonroad-related projects	87,335	123,917
Total expenses	17,940,528	17,522,844
Change in Net Position	\$ (404,307)	\$ 1,022,831

The Road Commission's revenue for the year ended December 31, 2013 decreased approximately 5 percent from the prior year. This decrease was due principally to a decrease in federal, state, and local government participation in road improvement projects. Total expenses for the year increased by approximately 2 percent due to an increase in road maintenance expenditures. Overall, the Road Commission decreased net position by \$404,307.

Budgetary Highlights

Prior to beginning each year, the Road Commission's budget is prepared based upon certain assumptions and facts available at that time. During the year, the Road Commission board amends its budget to reflect changes in the original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted.

Kalamazoo County Road Commission

Management's Discussion and Analysis (Continued)

The Road Commission amended its 2013 budget during the year. The final budget for revenue was approximately \$448,000 more than the original budget, primarily due to more than expected Michigan Transportation Fund and township revenue. Our actual revenue ended the year higher than expected, primarily due to the additional revenue received from the Michigan Transportation Fund. The final budget for expenditures was approximately \$951,000 less than the original budget due to less than anticipated road improvement and maintenance expenditures. Actual expenditures at the end of the year were approximately \$818,000 less than the final amended budget, primarily due to the Road Commission spending less on routine and preventative maintenance-related expenses.

Capital Assets

The Road Commission ended the year with a decrease in net capital assets amounting to \$1,229,285. Infrastructure continues to be the largest asset class and is funded by federal, state, and local contributions, as well as by Road Commission revenue. Depreciation of capital assets is provided for annually over estimated future lives.

	December 31	
	2013	2012
Land and improvements	\$ 21,799,220	\$ 20,857,806
Buildings and improvements	4,117,821	4,083,767
Road equipment	8,814,667	8,345,020
Other equipment	632,566	551,446
Infrastructure and improvements	<u>172,498,156</u>	<u>171,429,256</u>
Total capital assets	207,862,430	205,267,295
Accumulated depreciation	<u>(92,211,769)</u>	<u>(88,387,349)</u>
Net capital assets	<u>\$ 115,650,661</u>	<u>\$ 116,879,946</u>

Additional information regarding capital assets is located in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

Michigan continues its longest sustained economic downturn since the Great Depression. With high unemployment levels and per-gallon gas prices increasing, gasoline usage will most certainly continue to decline. As a result, the Road Commission's largest source of operating revenue, the gas tax, has decreased to levels received almost 10 years ago.

Kalamazoo County Road Commission

Management's Discussion and Analysis (Continued)

The Michigan Transportation Fund (MTF) formula that was derived in 1951, while having been modified, continues to work against the Road Commission. The formula does not account for vehicles that are highly fuel efficient, alternative-powered vehicles, or the change in consumer driving and buying habits. Without any changes to the formula or other sources of funding roads, local agencies that depend on MTF dollars will continue to suffer.

The board, management, and staff of the Road Commission continue to work diligently to be efficient and keep our expenses low, look for opportunities to partner with other agencies in our area and region, and access all available dollars to maintain the roads and infrastructure within Kalamazoo County.

Contacting the Road Commission's Management

This financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to Kalamazoo County Road Commission, 3801 East Kilgore Road, Kalamazoo, MI 49001, or visit our website at www.kalamazooountyroads.com.

Kalamazoo County Road Commission

Statement of Net Position/Governmental Funds Balance Sheet December 31, 2013

	Modified Accrual Basis		Statement of Net Position
	Road Fund	Adjustments	
Assets			
Cash (Note 4)	\$ 3,005,881	\$ -	\$ 3,005,881
Receivables:			
Special assessments receivable	25,866	-	25,866
Due from state transportation department	2,105,723	-	2,105,723
Due on county road agreements	53,538	-	53,538
Sundry accounts receivable	416,709	-	416,709
Inventory	984,745	-	984,745
Prepaid expenses	175,235	-	175,235
Advances	152,077	-	152,077
Prepaid construction	121,119	-	121,119
Capital assets (Note 5):			
Assets not subject to depreciation	-	21,799,220	21,799,220
Assets subject to depreciation	-	93,851,441	93,851,441
Total assets	\$ 7,040,893	115,650,661	122,691,554
Liabilities			
Accounts payable	\$ 480,946	-	480,946
Accrued liabilities	32,882	106,142	139,024
Advances	152,077	-	152,077
Total liabilities	665,905	106,142	772,047
Deferred Inflows of Resources			
Unavailable revenue	25,866	(25,866)	-
Equity			
Fund balance:			
Nonspendable:			
Inventory	984,745	(984,745)	-
Prepays	296,354	(296,354)	-
Unassigned	5,068,023	(5,068,023)	-
Total fund balance	6,349,122	(6,349,122)	-
Total liabilities, deferred inflows, and fund balance	\$ 7,040,893		
Net position:			
Net investment in capital assets		115,650,661	115,650,661
Unrestricted		6,268,846	6,268,846
Total net position		\$ 121,919,507	\$ 121,919,507

Kalamazoo County Road Commission

Statement of Activities/Governmental Fund Revenues, Expenditures, and Changes in Fund Balance Year Ended December 31, 2013

	Modified Accrual Basis		Statement of Activities
	Road Fund	Adjustments	
Revenues			
Michigan Transportation Fund	\$ 13,150,110	\$ -	\$ 13,150,110
Federal grants	1,119,781	-	1,119,781
State funding	459,911	-	459,911
Township and city contributions	1,764,408	-	1,764,408
Other contributions and service charges	177,101	843,470	1,020,571
Other revenue	71,553	(50,113)	21,440
	<u>16,742,864</u>	<u>793,357</u>	<u>17,536,221</u>
Total revenues			
Expenditures/Expenses			
Primary preservation	3,998,221	(3,998,221)	-
Primary maintenance	4,751,439	-	4,751,439
Local preservation	1,136,672	(1,136,672)	-
Local maintenance	4,624,338	-	4,624,338
Administrative	873,537	106,142	979,679
Capital outlay	1,006,642	(1,006,642)	-
Less equipment rental and other charged to other expenditures	(716,553)	-	(716,553)
Depreciation expense	-	8,214,290	8,214,290
Nonroad-related projects	87,335	-	87,335
	<u>15,761,631</u>	<u>2,178,897</u>	<u>17,940,528</u>
Total expenditures/expenses			
Net Change in Fund Balances/Net Position	981,233	(1,385,540)	(404,307)
Fund Balances/Net Position - Beginning of year	5,367,889	116,955,925	122,323,814
Fund Balances/Net Position - End of year	<u>\$ 6,349,122</u>	<u>\$ 115,570,385</u>	<u>\$ 121,919,507</u>

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies

The Kalamazoo County Road Commission (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in Kalamazoo County, Michigan. The Road Commission is governed by a five-member Board of County Road Commissioners appointed by the Kalamazoo County Board of Commissioners. The Road Commission's financial statements will be included in the basic financial statements of Kalamazoo County, Michigan, as well as a discretely presented component unit.

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

Basic Financial Statements - 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 of the activities of the Road Commission. For the most part, the effect of interfund activity has been removed from these statements. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided to report the governmental fund and have been separately stated in conjunction with the government-wide financial statements.

The major individual governmental fund has been reported as a separate column in the fund financial statements. The Road Fund is used to account for all the revenue of the Road Commission.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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

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

The Road Fund is the Road Commission's only fund. All activities are reported in this fund on a modified accrual basis of accounting.

Cash - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Due from State Transportation Department and Due on County Road Agreements - Due from state transportation department consists of amounts due from the Michigan Transportation Fund for state-shared revenue. Due on county road agreements consists of receivables from townships, cities, and villages for their share of construction projects.

Inventories and Prepaid Items - Inventories consist principally of road material, salt, signs, and equipment maintenance materials and are valued at average cost. 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 items in both the government-wide and fund financial statements.

Prepaid Construction - Prepaid construction results when progress payments made to the Michigan Department of Transportation are in excess of the total expenses incurred for projects on a percentage-of-completion basis. The payments will be applied to projects in future years as costs are incurred.

Capital Assets - Capital assets, which include property, buildings, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$2,500 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. The related revenue is recorded as other contributions.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the sum-of-the-years'-digits method for road equipment and the straight-line method for all other capital assets over the following useful lives:

Buildings	25 to 50 years
Road equipment	5 to 8 years
Other equipment	4 to 20 years
Infrastructure	5 to 50 years

Deferred Inflows of Resources - In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. The Road Fund reports unavailable revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period in which the amounts become available.

Fund Balance - In the fund financial statements, governmental funds are to 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
- **Committed** - Amounts that have been formally set aside by the Road Commission for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of County Road Commissioners.
- **Assigned** - Intent to spend resources on specific purposes expressed by the Board of County Road Commissioners or by the managing director, who is authorized by resolution of the Board of County Road Commissioners to make assignments
- **Unassigned** - Amounts not otherwise categorized above and available to be spent for any purpose

When multiple components of fund balance are available for the same expenditures (for example, a project has both restricted and unrestricted funds available for it), spending will occur in this order - restricted, committed, assigned, and unassigned.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

In January 2013, the Board of County Road Commissioners adopted a minimum fund balance policy to maintain fund balance in the Road Fund of 25 percent of annual expenditures.

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 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.

Accounting and Reporting Change - During the year, the Road Commission adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements, deferred outflows of resources and deferred inflows of resources.

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

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities

Net position reported in the statement of net position column is different than the fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Fund Balance Reported in Governmental Funds	\$ 6,349,122
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	115,650,661
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	25,866
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	<u>(106,142)</u>
Net Position of Governmental Activities	<u>\$ 121,919,507</u>

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Net Change in Fund Balances - Total Governmental Funds	\$ 981,233
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	6,985,005
Depreciation expense	(8,214,290)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(50,113)
Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	<u>(106,142)</u>
Change in Net Position of Governmental Activities	<u>\$ (404,307)</u>

Note 3 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982, as amended by P.A. 493 of 2000:

- Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

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

Pursuant to this requirement, the Road Commission follows these procedures:

- The director submits a proposed operating budget for the fiscal year to the Board of County Road Commissioners before the beginning of the fiscal year. The budget includes proposed expenditures and the means of providing them.
- A public hearing is held to obtain comments.
- Prior to the beginning of the year, the budget and appropriations are legally adopted by the Board of County Road Commissioners.
- Comparison of budget to actual activity is used as a management control device throughout the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented may be amended throughout the year by an official action of the board.

Excess of Expenditures Over Appropriations - The law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget. During the year ended December 31, 2013, the Road Commission did not have expenditures that were significantly in excess of amounts budgeted.

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 law also allows investments outside the state of Michigan when fully insured. The local unit 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 mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated three banks for the deposit of its funds. The Road Commission's deposits and investment policies are in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had approximately \$2,578,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

Governmental Activities	Balance January 1, 2013	Additions	Retirements/ Transfers	Balance December 31, 2013
Capital assets not being depreciated:				
Land and improvements	\$ 607,993	\$ 97,942	\$ -	\$ 705,935
Infrastructure and improvements	20,249,813	843,472	-	21,093,285
Subtotal	20,857,806	941,414	-	21,799,220
Capital assets being depreciated:				
Buildings and improvements	4,083,767	34,056	-	4,117,823
Road equipment	8,345,020	761,409	(291,762)	8,814,667
Other equipment	551,446	113,235	(32,115)	632,566
Infrastructure and improvements	171,429,256	5,134,891	(4,065,993)	172,498,154
Subtotal	184,409,489	6,043,591	(4,389,870)	186,063,210
Accumulated depreciation:				
Buildings and improvements	2,297,809	83,981	-	2,381,790
Road equipment	6,844,509	574,752	(291,762)	7,127,499
Other equipment	481,615	30,818	(32,115)	480,318
Infrastructure and improvements	78,763,416	7,524,739	(4,065,993)	82,222,162
Subtotal	88,387,349	8,214,290	(4,389,870)	92,211,769
Net capital assets being depreciated	96,022,140	(2,170,699)	-	93,851,441
Net capital assets	\$ 116,879,946	\$ (1,229,285)	\$ -	\$ 115,650,661

Note 6 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Kalamazoo County Employees' Retirement Plan (the "Plan"), a public employee retirement system which is an agent multiple-employer defined benefit pension plan administered by the Kalamazoo County Employees' Retirement System (the "System"). The Road Commission's Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the Plan. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Plan. That report may be obtained by writing to the System at 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8111.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note 6 - Defined Benefit Pension Plan (Continued)

Funding Policy - The Road Commission is required to contribute at an actuarially determined rate; however, no contribution was required in the current year. The contribution requirements are established by the System based on an actuarial valuation. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission depending on the Plan's contribution program. Plan members are currently not required to contribute to the System.

Annual Pension Cost - For the year ended December 31, 2013, the Road Commission had no annual pension cost or required contribution to the plan. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return and (b) projected salary increases of between 3.50 percent and 8.23 percent per year compounded annually, of which 3.50 percent is attributable to inflation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period.

The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Three-year Trend Information

	Fiscal Year Ended December 31		
	2013	2012	2011
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

	Fiscal Year Ended December 31		
	2012	2011	2010
Actuarial value of assets	\$ 17,186,467	\$ 17,852,065	\$ 18,347,379
Actuarial accrued liability (AAL)			
(entry age)	13,450,299	13,574,391	13,253,098
Overfunded AAL	3,736,168	4,277,674	5,094,281
Funded ratio	127.8 %	131.5 %	138.4 %
Covered payroll	2,379,843	2,699,115	2,747,330
Overfunded AAL as a percentage of covered payroll	157.0 %	158.5 %	185.4 %

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note 7 - Other Postemployment Benefits

Plan Description - The Road Commission provides medical benefits to eligible retired Road Commission employees through the Kalamazoo County Retiree Medical Benefits Plan (the "Plan"), an agent multiple employer plan. The plan is affiliated with the Kalamazoo County Retiree Health Trust (the "Trust"), which is exempt from tax under Section 115 of the Internal Revenue Code of 1986.

Benefit provisions of the Plan are established and amended by the Kalamazoo County Board of Commissioners. The Plan issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Kalamazoo County Employees' Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8111.

Funding Policy - The Road Commission is required to contribute at a percentage of covered payroll as determined by the Plan; the required contribution for the year ended December 31, 2013 was \$169,453 or 7.70 percent. The actual contribution made by the Road Commission during the year ended December 31, 2013 was \$169,453. The contribution requirements are established by the Plan based on an actuarial valuation. Road Commission retirees pay 20 percent of the cost of their health insurance premiums. This percentage is established and may be amended by the Road Commission. Retiree healthcare benefits will not be available to nonunion employees hired on or after January 1, 2013 and American Federal of State, County and Municipal Employees union members hired on or after January 1, 2012.

Funding Progress - The required and actual contributions for the last three years are as follows:

	Fiscal Year Ended December 31		
	2013	2012	2011
Annual covered payroll	\$ 2,200,685	\$ 2,284,616	\$ 2,483,917
Required contribution rate	7.7 %	7.8 %	9.9 %
Required contribution	\$ 169,453	\$ 177,972	\$ 245,411
Actual contribution made	\$ 169,453	\$ 196,250	\$ 245,411

The resulting net OPEB asset is not considered to be significant related to the financial statements taken as a whole and has not been recorded as an asset in the statement of net position.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note 7 - Other Postemployment Benefits (Continued)

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

	2011	2009
Valuation as of December 31, 2011:		
Actuarial value of assets	\$ 1,435,680	\$ 1,233,280
Actuarial accrued liability	3,956,241	4,936,576
Unfunded AAL	(2,520,561)	(3,703,296)
Funded ratio	36.30 %	24.98 %
Annual covered payroll	2,284,616	2,970,142
Ratio of UAAL to covered payroll	(110.33)%	(124.68)%

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. 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. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included are (a) a rate of return on investments of present and future assets of 7.75 percent, (b) projected salary increases of 3.5 percent to 8.22 percent per year, compounded annually, with 3.5 percent attributable to inflation, and (c) a healthcare cost trend rate of 9 percent. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2013 was 30 years.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2013

Note 8 - Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) for claims relating to property loss, torts, errors, and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

MCRCSIP operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is a member of the County Road Association Self-insurance Fund (CRASIF) for workers' compensation claims. Member premiums are used to purchase workers' compensation insurance. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

The Road Commission continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

Note 9 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. As of December 31, 2013, the Road Commission's pension system is overfunded. The provisions of this statement are effective for financial statements for the year ending December 31, 2015.

Required Supplemental Information

Kalamazoo County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Michigan Transportation Fund	\$ 12,500,000	\$ 12,700,000	\$ 13,150,110	\$ 450,110
Federal, state, and enhancements	2,174,311	1,898,175	1,579,692	(318,483)
Townships	1,295,000	1,751,000	1,751,292	292
Township special assessments	50,000	49,400	49,445	45
Cities and other governmental	20,000	13,100	13,116	16
Interest	12,000	2,500	1,718	(782)
Other	100,000	185,000	197,491	12,491
Total revenues	16,151,311	16,599,175	16,742,864	143,689
Expenditures				
Preservation and structural	7,600,000	5,438,100	5,368,761	69,339
Routine and preventative	8,338,352	9,603,900	9,141,909	461,991
Equipment rental and other charged to other expenditures	(707,635)	(695,000)	(716,553)	21,553
Capital outlay	1,220,700	1,006,583	1,006,642	(59)
Administration	979,609	961,460	873,537	87,923
Work performed for others	100,000	265,000	87,335	177,665
Total expenditures	17,531,026	16,580,043	15,761,631	818,412
Excess of Expenditures (Over) Under Revenue	(1,379,715)	19,132	981,233	962,101
Fund Balance - Beginning of year	5,367,889	5,367,889	5,367,889	-
Fund Balance - End of year	\$ 3,988,174	\$ 5,387,021	\$ 6,349,122	\$ 962,101

Kalamazoo County Road Commission

Required Supplemental Information Defined Benefit Pension Plan Schedule of Funding Progress Year Ended December 31, 2013

The schedule of funding progress for the defined benefit pension plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/10	\$ 18,347,379	\$ 13,253,098	\$ (5,094,281)	138.4	\$ 2,747,330	(185.4)
12/31/11	17,852,065	13,574,391	(4,277,674)	131.5	2,699,115	(158.5)
12/31/12	17,186,467	13,450,299	(3,736,168)	127.8	2,379,843	(157.0)

Kalamazoo County Road Commission

Required Supplemental Information Other Postemployment Benefit Plan Schedule of Funding Progress Year Ended December 31, 2013

The schedule of funding progress for the other postemployment benefit plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/09	\$ 1,233,280	\$ 4,936,576	\$ 3,703,296	25.0	\$ 2,970,142	124.7
12/31/11	1,435,680	3,956,241	2,520,561	36.3	2,284,616	110.3

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/11	12/31/09	\$ 245,411	100.0
12/31/12	12/31/11	177,972	111.0
12/31/13	12/31/11	169,453	100.0

* The required contribution is expressed to the Road Commission as a percentage of payroll.

Other Supplemental Information

Kalamazoo County Road Commission

Analysis of Revenue, Expenditures, and Changes in Fund Balance - Road Fund Year Ended December 31, 2013

	Primary Roads	Local Roads	County Road Funds	Total
Revenue				
Michigan Transportation Fund:				
Engineering	\$ 7,559	\$ 2,441	\$ -	\$ 10,000
Snow removal	1,076	1,958	-	3,034
Urban road	1,827,012	541,918	-	2,368,930
Allocation	8,139,911	2,628,234	-	10,768,145
Total Michigan Transportation Fund	9,975,558	3,174,551	-	13,150,109
Economic Development Fund - Rural primary	270,737	-	-	270,737
Total Economic Development Fund	270,737	-	-	270,737
Governmental funding:				
Federal	1,119,782	-	-	1,119,782
Local bridge	189,174	-	-	189,174
Township and city contributions	526	1,752,225	15,115	1,767,866
Other contributions and changes for services	61,741	106,302	-	168,043
Total governmental funding	11,617,518	5,033,078	15,115	16,665,711
Other:				
Gain on equipment disposals	-	-	23,699	23,699
Special assessments	-	49,445	-	49,445
Interest earned	209	1,406	2,394	4,009
Total other	209	50,851	26,093	77,153
Total revenue	11,617,727	5,083,929	41,208	16,742,864
Expenditures				
Preservation and maintenance:				
Preservation - Structural improvements	3,998,221	1,136,672	-	5,134,893
Maintenance	4,751,439	4,624,338	-	9,375,777
Total preservation and maintenance	8,749,660	5,761,010	-	14,510,670
Other:				
Administrative expenses	526,725	346,810	-	873,535
Net equipment expenses	(11,985)	(14,622)	(394)	(27,001)
Net capital outlay	-	-	317,091	317,091
Other - Services for other units	-	-	87,336	87,336
Total other	514,740	332,188	404,033	1,250,961
Total expenditures	9,264,400	6,093,198	404,033	15,761,631
Excess of Revenue Over (Under) Expenditures	2,353,327	(1,009,269)	(362,825)	981,233
Other Financing (Uses) Sources - Optional transfers	(1,009,269)	1,009,269	-	-
Net Change in Fund Balance	1,344,058	-	(362,825)	981,233
Fund Balance - Beginning of year	3,607,885	-	1,760,004	5,367,889
Fund Balance - End of year	<u>\$ 4,951,943</u>	<u>\$ -</u>	<u>\$ 1,397,179</u>	<u>\$ 6,349,122</u>