

Kalamazoo County Road Commission

**Financial Report
with Supplemental Information
December 31, 2010**

Kalamazoo County Road Commission

Contents

Report Letter	1
Management’s Discussion and Analysis	2-6
Basic Financial Statements - Government-wide/Governmental Fund Financial Statements	
Governmental Fund Balance Sheet/Statement of Net Assets	7
Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets	8
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities	9
Reconciliation of Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance to Statement of Activities	10
Notes to Financial Statements	11-20
Required Supplemental Information	21
Budgetary Comparison Schedule - Road Fund	22
Other Supplemental Information	23
Analysis of Revenue, Expenditures, and Changes in Fund Balance - Road Fund	24

Independent Auditor's Report

To the Board of Road Commissioners
Kalamazoo County Road Commission

We have audited the accompanying financial statements of the governmental activities and the General Fund of Kalamazoo County Road Commission (a component unit of Kalamazoo County) (the "Road Commission") as of and for the year ended December 31, 2010, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Kalamazoo County Road Commission at December 31, 2010 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

Plante & Moran, PLLC

April 15, 2011

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 assets) 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 are not recognized as assets and are capitalized at the governmental fund level.

With respect to the statements on financial 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, 2010. 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 assets, statement of governmental fund revenue, expenditures, and changes in fund balance/statement of activities, and notes to 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, 2010 and 2009 and for the years then ended. Over time, increases or decreases in the Road Commission's net assets 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: for example, the condition of the roads in our jurisdiction and changes in the laws related to gas taxes and their distribution.

Condensed Statement of Net Assets

	December 31	
	2010	2009
Assets		
Other assets	\$ 8,099,159	\$ 7,196,726
Capital assets	<u>113,804,552</u>	<u>113,536,274</u>
Total assets	121,903,711	120,733,000
Liabilities - Current liabilities	<u>987,271</u>	<u>1,011,576</u>
Net Assets		
General Fund balance/unrestricted net assets	7,111,888	6,185,150
Invested in capital assets - Net of related debt	<u>113,804,552</u>	<u>113,536,274</u>
Total net assets	<u><u>\$ 120,916,440</u></u>	<u><u>\$ 119,721,424</u></u>

Kalamazoo County Road Commission

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Year Ended December 31	
	2010	2009
Revenue		
Intergovernmental	\$ 16,192,720	\$ 17,151,248
Other contributions and service charges	1,525,656	2,125,690
Other	94,800	115,425
Total revenue	17,813,176	19,392,363
Expenses		
Primary maintenance	4,481,317	4,284,086
Local maintenance	4,364,147	5,001,716
Depreciation	7,594,318	7,823,006
Administrative	1,090,770	951,824
Equipment rental and other charges	(973,977)	(937,620)
Non-road related projects	61,585	1,025,029
Total expenses	16,618,160	18,148,041
Change in Net Assets	\$ 1,195,016	\$ 1,244,322

The Road Commission's revenue for the year ended December 31, 2010 decreased approximately 8 percent from the prior year. This decrease was due principally to decreased federal revenue representing participation in road construction projects. Total expenses for the year were also down by approximately 8 percent, due to decreased local maintenance expense in 2010 and a one-time non-road project that occurred during 2009. Overall, the Road Commission added \$1,195,016 to net assets, or almost 1 percent.

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 2010 budget on three occasions during the year. The final budget for revenue was \$2,732,000 less than the original budget, primarily due to less than expected federal, state, and other revenue. Our actual revenue ended the year higher than expected, primarily due to the value of donated property. The final budget for expenditures was approximately \$1,856,000 less than the original budget, also due to less than expected federal, state, and other expense. Actual expenditures at the end of the year were approximately \$1,687,000 less than the final amended budget, primarily due to less than expected overall road expenditures and fringe benefit costs.

Capital Assets

The Road Commission ended the year with a small increase in net capital assets amounting to \$268,278. Infrastructure costs continue to be the largest asset class and are 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	
	2010	2009
Land and improvements	\$ 20,313,674	\$ 19,647,170
Buildings and improvements	3,838,834	3,624,211
Road equipment	7,268,407	6,809,217
Other equipment	577,708	925,220
Infrastructure and improvements	160,208,498	210,069,805
Total capital assets	192,207,121	241,075,623
Accumulated depreciation	(78,402,569)	(127,539,349)
Net capital assets	<u>\$ 113,804,552</u>	<u>\$ 113,536,274</u>

Additional information regarding capital assets is located in Note 4 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.

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.

Kalamazoo County Road Commission

Management's Discussion and Analysis (Continued)

The board, management, and staff of the Road Commission 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 in an attempt to maintain the roads and infrastructure within Kalamazoo County.

Contacting the Road Commission 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.kalamazoocountyroads.com.

Kalamazoo County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2010

	Road Fund	Adjustments	Statement of Net Assets
Assets			
Cash (Note 3)	\$ 4,605,946	\$ -	\$ 4,605,946
Due from other governmental units:			
State transportation department	1,986,439	-	1,986,439
Due on county road agreements	156,869	-	156,869
Special assessments receivable	109,311	-	109,311
Inventories:			
Equipment, materials, and parts	44,550	-	44,550
Road materials	703,673	-	703,673
Deferred expenses	234,592	-	234,592
Prepaid expenses	170,916	-	170,916
Advances	54,851	-	54,851
Restricted assets - Kalamazoo Area Transportation Study (Note 3)	32,012	-	32,012
Capital assets (Note 4):			
Assets not being depreciated	-	20,313,674	20,313,674
Assets being depreciated	-	93,490,878	93,490,878
Total assets	<u>\$ 8,099,159</u>	<u>\$ 113,804,552</u>	121,903,711
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 555,947	\$ -	555,947
Accrued liabilities	177,846	-	177,846
Advances	54,851	-	54,851
Deferred revenue - Kalamazoo River Trailway	60,934	-	60,934
Deferred revenue - Other	101,946	-	101,946
Escrow agreement	3,735	-	3,735
Kalamazoo Area Transportation Study	32,012	-	32,012
Total liabilities	<u>987,271</u>	<u>-</u>	<u>987,271</u>
Fund Balance/Net Assets			
Reserved for inventories and prepaids	1,208,582	(1,208,582)	-
Undesignated	5,903,306	(5,903,306)	-
Total fund balances	<u>7,111,888</u>	<u>(7,111,888)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 8,099,159</u>		
Net Assets			
Investments in capital assets - Net of related debt		113,804,552	113,804,552
Unrestricted		7,111,888	7,111,888
Total net assets		<u>\$ 120,916,440</u>	<u>\$ 120,916,440</u>

Kalamazoo County Road Commission

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets December 31, 2010

Total governmental fund balance	\$ 7,111,888
Capital assets used in governmental activities are not financial resources and are not reported in the funds	<u>113,804,552</u>
Government-wide net assets	<u>\$ 120,916,440</u>

Kalamazoo County Road Commission

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2010

	Road Fund	Adjustments	Statement of Activities
Revenue			
Michigan Transportation Fund	\$ 12,578,252	\$ -	\$ 12,578,252
Federal grants	1,641,285	-	1,641,285
Critical bridge	645,980	-	645,980
State Jobs Today program	96	-	96
Township and city contributions	1,327,107	-	1,327,107
Other contributions and service charges	1,525,656	-	1,525,656
Other revenue	109,731	(14,931)	94,800
	<u>17,828,107</u>	<u>(14,931)</u>	<u>17,813,176</u>
Total revenue	17,828,107	(14,931)	17,813,176
Expenditures/Expenses			
Primary preservation	3,773,165	(3,773,165)	-
Primary maintenance	4,481,317	-	4,481,317
Primary construction	278,295	(278,295)	-
Local preservation	2,724,287	(2,724,287)	-
Local maintenance	4,364,147	-	4,364,147
Administrative	1,090,770	-	1,090,770
Capital outlay	1,101,780	(1,101,780)	-
Less equipment rental and other charged to other expenditures	(973,977)	-	(973,977)
Depreciation expense	-	7,594,318	7,594,318
Non-road related projects	61,585	-	61,585
	<u>16,901,369</u>	<u>(283,209)</u>	<u>16,618,160</u>
Total expenditures	16,901,369	(283,209)	16,618,160
Net Change in Fund Balance	926,738	268,278	1,195,016
Fund Balance/Net Assets - Beginning of year	<u>6,185,150</u>	<u>113,536,274</u>	<u>119,721,424</u>
Fund Balance/Net Assets - End of year	<u>\$ 7,111,888</u>	<u>\$ 113,804,552</u>	<u>\$ 120,916,440</u>

Kalamazoo County Road Commission

Reconciliation of Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance to Statement of Activities Year Ended December 31, 2010

Net change in fund balance	\$ 926,738
Amounts reported for governmental activities in the statement of activities are different because:	
Net book value of capital assets written off is not reflected in the fund	(14,931)
Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives:	
Expenditures for capital assets	7,877,527
Current year depreciation	<u>(7,594,318)</u>
Change in net assets of governmental activities	<u>\$ 1,195,016</u>

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 1 - 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 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:

Basic Financial Statements - Government-wide and Fund Financial Statements

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

The fund financial statements are provided to report governmental funds, 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.

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.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 1 - Significant Accounting Policies (Continued)

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.

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, are recorded only when payment is due.

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

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

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

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices. Restricted cash consists of cash held by the Road Commission for use by the Kalamazoo Area Transportation Study (KATS).

Due from Other Governments - Due from other governments consists of amounts due from the Michigan Transportation Fund for state-shared revenue as well as receivables from townships for their share of construction projects.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 1 - Significant Accounting Policies (Continued)

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

Deferred Expenses - Deferred expenses result 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 expenses are incurred.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$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 contributions in-kind.

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

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

Deferred Revenue - The Road Fund reports deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. The Road Fund also defers revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consisted of \$60,934 and \$101,946, which is considered to be unearned and unavailable, respectively.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 1 - Significant Accounting Policies (Continued)

Kalamazoo Area Transportation Study (KATS) - The Road Commission leases office space and provides certain accounting services to KATS, including physical custody of cash belonging to KATS. At December 31, 2010, the Road Commission recorded restricted cash and a liability to KATS for \$32,102, which represents the amount held in the Road Commission's bank accounts at year end.

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.

Upcoming Reporting Change - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The Road Commission will implement Statement No. 54 beginning with the fiscal year ending December 31, 2011.

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

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 2 - 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.

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.

The law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget. Actual construction and capacity expenditures of \$1.34 million exceeded the amount in the amended budget of \$325,000 due to donated right-of-way assets of \$1.47 million which were offset by other revenue.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 3 - 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 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 matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

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

The Road Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the 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 \$2,330,338 of bank deposits (checking accounts) that were uninsured. Included in these bank deposits is \$32,012 that the Road Commission held at year end on behalf of the Kalamazoo Area Transportation Study.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. It is the Road Commission's policy to deposit excess funds with the Kalamazoo County Treasurer. All investments at year end were held by Kalamazoo County.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission has no investment policy that would further limit its investment choices.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land and improvements	\$ 1,198,399	\$ -	\$ (722,800)	\$ 475,599
Infrastructure and improvements	18,448,771	666,504	722,800	19,838,075
Total land and improvements	19,647,170	666,504	-	20,313,674
Capital assets being depreciated:				
Buildings and improvements	3,624,211	214,623	-	3,838,834
Road equipment	6,809,217	883,996	(424,806)	7,268,407
Other equipment	925,220	3,162	(350,674)	577,708
Infrastructure and improvements	210,069,805	6,109,242	(55,970,549)	160,208,498
Total capital assets being depreciated	221,428,453	7,211,023	(56,746,029)	171,893,447
Total capital assets	241,075,623	7,877,527	(56,746,029)	192,207,121
Less accumulated depreciation for:				
Buildings and improvements	(2,079,521)	(67,664)	-	(2,147,185)
Road equipment	(6,115,438)	(438,372)	424,806	(6,129,004)
Other equipment	(849,129)	(21,282)	335,743	(534,668)
Infrastructure and improvements	(118,495,261)	(7,067,000)	55,970,549	(69,591,712)
Total depreciation	(127,539,349)	(7,594,318)	56,731,098	(78,402,569)
Net capital assets being depreciated	93,889,104	(383,295)	(14,931)	93,490,878
Net capital assets	<u>\$ 113,536,274</u>	<u>\$ 283,209</u>	<u>\$ (14,931)</u>	<u>\$ 113,804,552</u>

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 5 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Kalamazoo County Employees' Retirement System, a public employee retirement system which is an agent multiple-employer plan administered by the Kalamazoo County Employees' Retirement System. The Road Commission's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the plan. The Kalamazoo County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The 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 an actuarially determined rate; the current rate is 0 percent of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements are established by the Kalamazoo County Employees' Retirement 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.

Annual Pension Cost - For the year ended December 31, 2010, the Road Commission's annual pension cost and required contribution was \$0 for the plan and the Road Commission made no actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75 percent, and (b) projected salary increases of 4.50 to 9.20 percent per year compounded annually, of which 4.5 percent is attributable to inflation. The actuarial value of plan assets was determined on the basis of a market value method which smooths the effect of short-term volatility over a five-year period.

The amortization method is level percent of payroll, closed period with 10 years remaining.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 5 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information	Fiscal Years Ended December 31		
	2008	2009	2010
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Schedule of Funding Progress	Actuarial Valuation as of December 31		
	2007	2008	2009
Actuarial value of plan assets	\$ 18,307,775	\$ 18,388,721	\$ 18,277,106
Actuarial accrued liability (AAL) entry age	\$ 12,714,350	\$ 13,052,992	\$ 13,398,414
Underfunded AAL (UAAL)	\$ (5,593,425)	\$ (5,335,729)	\$ (4,878,692)
Funded ratio	144%	141%	136%
Covered payroll	\$ 3,062,522	\$ 3,114,099	\$ 2,758,960
UAAL as a percentage of covered payroll	(183%)	(171%)	(177%)

Note 6 - Other Postemployment Benefits

Plan Description - The Road Commission provides medical benefits to eligible retired 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. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the plan. The Kalamazoo County Retiree Medical Benefits Plan 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 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 current amount is \$247,696 or 9.88 percent. The contribution requirements are established by the Plan based on an actuarial valuation. Road Commission retirees pay 8 percent of the cost of their health insurance premiums. This percentage is established and may be amended by the Road Commission. The required and actual contributions for the last three years are as follows:

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2010

Note 6 - Other Postemployment Benefits (Continued)

	Fiscal Years Ended December 31		
	2008	2009	2010
Annual covered payroll	\$ 3,118,728	\$ 2,950,857	\$ 2,705,045
Required contribution rate	23.71%	10.63%	9.88%
Required contribution	\$ 739,450	\$ 313,676	\$ 267,258
Actual contribution made	\$ 733,240	\$ 563,177	\$ 247,696

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 assets. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.75 percent and (b) projected salary increases of 4.5 to 9.2 percent per year compounded annually, with 4.5 percent attributable to inflation, and a healthcare cost trend rate of 9 percent.

Note 7 - 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. During 2010, the Road Commission participated 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.

Required Supplemental Information

Kalamazoo County Road Commission

Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2010

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Michigan Transportation Fund	\$ 11,761,000	\$ 11,961,000	\$ 12,578,252	\$ 617,252
Federal, state, and enhancements	6,113,327	3,113,327	2,290,436	(822,891)
Townships	1,119,340	1,119,340	1,368,198	248,858
Cities and other governmental	19,000	87,000	88,647	1,647
Interest	50,000	50,000	42,428	(7,572)
Other	200,000	200,000	1,460,146	1,260,146
Total revenue	19,262,667	16,530,667	17,828,107	1,297,440
Expenditures				
Construction and capacity	1,250,000	325,000	1,663,215	(1,338,215)
Preservation and structural	8,655,084	6,866,851	4,844,220	2,022,631
Routine and preventative	6,952,531	7,407,531	7,387,590	19,941
Administration	1,023,680	1,023,680	671,479	352,201
Capital outlay	834,500	1,168,345	1,101,780	66,565
Equipment rental and other charged to other expenditures	(1,249,724)	(1,249,724)	(1,139,118)	(110,606)
Work performed for others	-	68,000	56,558	11,442
Interest expense	5,000	5,000	-	5,000
Distributive	2,973,879	2,973,879	2,315,645	658,234
Total expenditures	20,444,950	18,588,562	16,901,369	1,687,193
Excess of Revenue (Under) Over Expenditures	(1,182,283)	(2,057,895)	926,738	2,984,633
Fund Balance - Beginning of year	6,185,150	6,185,150	6,185,150	-
Fund Balance - End of year	\$ 5,002,867	\$ 4,127,255	\$ 7,111,888	\$ 2,984,633

Other Supplemental Information

Kalamazoo County Road Commission

Analysis of Revenue, Expenditures, and Changes in Fund Balance - Road Fund Year Ended December 31, 2010

	Primary Roads	Local Roads	County Road Funds	Total
Revenue				
Michigan Transportation Fund:				
Engineering	\$ 7,619	\$ 2,381	\$ -	\$ 10,000
Snow removal	1,054	1,910	-	2,964
Urban road	1,765,044	521,270	-	2,286,314
Allocation	7,832,026	2,446,948	-	10,278,974
Total Michigan Transportation Fund	9,605,743	2,972,509	-	12,578,252
Federal	1,628,958	-	12,327	1,641,285
State - Critical bridge	645,980	-	-	645,980
State - Jobs Today Program	2,341	830	-	3,171
Township and city contributions	33,910	1,268,021	66,267	1,368,198
Other contributions and changes for services	29,002	56,191	3,454	88,647
Total county	11,945,934	4,297,551	82,048	16,325,533
Other:				
Gain on equipment disposals	-	-	31,356	31,356
Special assessments	-	21,017	-	21,017
Private contributions	-	1,389,304	-	1,389,304
Property rentals	-	-	3,537	3,537
Interest earned	25,799	1,624	15,005	42,428
Total other	25,799	1,411,945	49,898	1,487,642
Total revenue	11,971,733	5,709,496	131,946	17,813,175
Expenditures				
Construction - Capacity improvements	278,294	1,389,304	-	1,667,598
Preservation - Structural improvements	4,495,964	1,334,983	-	5,830,947
Maintenance	4,481,317	4,364,147	-	8,845,464
Total preservation and maintenance	9,255,575	7,088,434	-	16,344,009
Other:				
Administrative expenses	617,701	473,069	-	1,090,770
Net equipment expenses	(196,975)	(242,446)	(7,236)	(446,657)
Net capital outlay	-	-	(163,270)	(163,270)
Other - Services for other units	-	-	61,585	61,585
Total other	420,726	230,623	(108,921)	542,428
Total expenditures	9,676,301	7,319,057	(108,921)	16,886,437
Excess of Revenue Over (Under) Expenditures	2,295,432	(1,609,561)	240,867	926,738
Other Financing (Uses) Sources - Optional transfers	(1,609,561)	1,609,561	-	-
Net Change in Fund Balance	685,871	-	240,867	926,738
Fund Balance - Beginning of year	3,910,638	-	2,274,512	6,185,150
Fund Balance - End of year	\$ 4,596,509	\$ -	\$ 2,515,379	\$ 7,111,888