

**KALAMAZOO COUNTY ROAD COMMISSION**  
Kalamazoo, Michigan

**FINANCIAL STATEMENTS**  
December 31, 2009

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
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Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

April 1, 2010

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Kalamazoo, Michigan

We have audited the accompanying financial statements of the Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalamazoo County Road Commission as of December 31, 2009 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
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The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Kalamazoo County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 1, 2010, on our consideration of the Kalamazoo County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Gardner, Provenzano, Schauman & Thomas*  
Certified Public Accountants

# KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS

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## **Introduction**

The Kalamazoo County Road Commission (KCRC) 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 (KCRC 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 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.

The audited financial activities of the KCRC are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities for the Year Ended December 31, 2009.

## **Condensed Financial Statements**

Following are condensed government-wide financial statements for the KCRC. The reports include the current and prior year balances for comparison.

**KALAMAZOO COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION & ANALYSIS**

**Condensed Statement of Net Assets**

		<u>2009</u>	<u>2008</u>
<b>Assets</b>			
General fund		\$ 7,196,726	\$ 7,123,799
Capital assets		113,536,274	113,179,260
	Total Assets	<u>\$ 120,733,000</u>	<u>\$ 120,303,059</u>
<b>Liabilities</b>			
	General fund liabilities	<u>\$ 1,011,576</u>	<u>\$ 1,825,957</u>
	Total Liabilities	<u>\$ 1,011,576</u>	<u>\$ 1,825,957</u>
<b>Net Assets</b>			
	General fund balance/net assets	\$ 6,185,150	\$ 5,297,842
	Invested in capital assets - net of related debt	113,536,274	113,179,260
	Total Net Assets	<u>\$ 119,721,424</u>	<u>\$ 118,477,102</u>

**Condensed Statement of Activities**

<b>Revenue</b>			
	Intergovernmental	\$ 18,088,868	\$ 22,774,386
	Other contributions and service charges	2,125,690	988,214
	Other	115,425	209,262
	Total Revenue	<u>20,329,983</u>	<u>23,971,862</u>
<b>Expenses</b>			
	Primary maintenance	4,284,086	4,060,347
	Local maintenance	5,001,716	4,764,174
	Depreciation	7,823,006	8,035,992
	Administrative	951,824	921,588
	Other non-motorized pathway	1,025,029	-
	Interest	-	37,456
	Total Expenses	<u>19,085,661</u>	<u>17,819,557</u>
	Change In Net Assets	<u>\$ 1,244,322</u>	<u>\$ 6,152,305</u>

**KALAMAZOO COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION & ANALYSIS**

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**Comments on the Condensed Financial Statements**

As the condensed financial statements reflect, the change in net assets for the year ending December 31, 2009 was \$1,244,322. 2009 saw continued investment in substantial and important primary road improvement projects such as the 8<sup>th</sup> Street from Q Avenue to R Avenue project and the 12<sup>th</sup> Street from C Avenue to D Avenue project, and the S Avenue from S. Sprinkle Road to 29<sup>th</sup> Street project. In 2009, the American Recovery and Reinvestment Act (ARRA) funding was made available to provide investment in our nation's infrastructure; including roads, bridges, and public transit to save or create jobs for American workers and enhance economic growth. For KCRC these funds totaled approximately \$3 million dollars and include the above referenced projects. In addition, the S Sprinkle Road from Zylman Avenue to ML Avenue project was an important signal upgrade and interconnect project utilizing State Congestion Mitigation and Air Quality (CMAQ) funding. Of course, the amount of expenditures for capital assets is offset by the current year depreciation.

The ending General Fund net of assets of \$6,185,150 saw an increase from the 2008 balance and includes funding committed for projects included in the capital improvement plan for the next construction season, as well as an attempt to build a reserve fund balance to provide for potential increases in expenses.

**Budget**

The KCRC's budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

**Original Budget Versus Amended Budget**

The 2009 original budget was adopted in December 2008. The budget is reviewed quarterly, amended as information is available or management's plans change.

The revenue and expenditure categories were adjusted at mid-year and year end with significant changes in three of the expense account classifications. Under the Primary Road Preservation-Structural Improvement expense, the ARRA projects were established and revenues were adjusted to accommodate approved funding. Other projects were reduced or increased according to updated project expense information. Another significant change was a reduction in Capital Outlay expenditures by approximately \$800,000. Equipment Operating Expenses were also reduced within the mid-year budget due to lower fuel prices.

**KALAMAZOO COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION & ANALYSIS**

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**Amended Budget Versus Actual**

The actual revenue was more than the expectation of the final amended budget by \$581,402, or approximately 3%. State revenue sources, including Michigan Transportation Funds, Critical Bridge Funds and Jobs Today Funds, exceeded the budget by \$437,305. Federal funding for the same period was less than expectations by \$276,264. In addition, revenue from outside sources for Plat construction was recorded in the amount of \$1,025,029. Revenues and expenditures on state and federal projects are often carried forward to future years.

On the expenditure side, actual expenses were less than budgeted by \$249,066, or less than 2%. Major items associated with the favorable variance are a reduction in capital outlay purchases and lower than anticipated expenditures for preservation and maintenance activities.

**Capital Assets and Long Term Debt**

The KCRC has capital assets including infrastructure (roads, bridges and signals) valued, for full accrual accounting purposes, net of accumulated depreciation of \$113,536,274, as summarized below.

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 19,647,170	\$ 17,641,288
Buildings and improvements	3,624,211	3,594,979
Road equipment	6,809,217	6,363,884
Other equipment	925,220	1,249,669
Infrastructure and improvements	<u>210,069,805</u>	<u>204,372,196</u>
Total Capital Assets	241,075,623	233,222,016
Accumulated Depreciation	<u>(127,539,349)</u>	<u>(120,042,756)</u>
Net Capital Assets	<u>\$ 113,536,274</u>	<u>\$ 113,179,260</u>

Additional information regarding capital assets is located in Note 3 of the financial statements.

**Other, Including Economic Factors**

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on next year and beyond on the KCRC financial condition.



**FINANCIAL STATEMENTS**

KALAMAZOO COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2009

	General Fund	<u>Adjustments</u>	Statement of <u>Net Assets</u>
<b>ASSETS</b>			
Cash	\$ 3,892,359	\$ -	\$ 3,892,359
Accounts Receivable			
State Transportation Department	1,977,797	-	1,977,797
Due on County Road Agreements	43,653	-	43,653
Other	71,820	-	71,820
Inventories			
Equipment materials and parts	48,913	-	48,913
Road materials	565,650	-	565,650
Deferred expense	352,853	-	352,853
Prepaid expense	175,329	-	175,329
Advance	68,352	-	68,352
Capital Assets			
Land and land improvements	-	19,647,170	19,647,170
Other capital assets, net of accumulated depreciation	-	93,889,104	93,889,104
Total Assets	<u>\$ 7,196,726</u>	<u>\$ 113,536,274</u>	<u>\$ 120,733,000</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 339,845	\$ -	\$ 339,845
Accrued liabilities	193,078	-	193,078
Advances	68,352	-	68,352
Deferred revenue - Kalamazoo River Trailway	218,485	-	218,485
Deferred revenue - other	28,658	-	28,658
Escrow agreement	73,754	-	73,754
Kalamazoo Area Transportation Study	89,404	-	89,404
Total Liabilities	<u>1,011,576</u>	<u>-</u>	<u>1,011,576</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances:			
Reserved for inventories and prepaids	789,892	(789,892)	-
Unreserved			
Undesignated	<u>5,395,258</u>	<u>(5,395,258)</u>	<u>-</u>
Total Fund Balance	<u>6,185,150</u>	<u>(6,185,150)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 7,196,726</u>		
Net Assets:			
Invested in capital assets, net of related debt		113,536,274	113,536,274
Restricted for primary		3,910,638	3,910,638
Unrestricted		2,274,512	2,274,512
Total Net Assets		<u>\$ 119,721,424</u>	<u>\$ 119,721,424</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2009

Total governmental fund balance	\$ 6,185,150
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	113,536,274
Net Assets of Governmental Activities	<u>\$ 119,721,424</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2009

	General <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
Revenue			
Transportation fund	\$ 12,466,557	\$ -	\$ 12,466,557
Federal grants	4,051,885	-	4,051,885
Critical bridge	152,569	-	152,569
State Jobs Today Program	6,941	-	6,941
Township and City contributions	1,410,916	-	1,410,916
Other contributions and service charges	1,171,789	953,901	2,125,690
Other revenues	115,425	-	115,425
Total Revenue	<u>19,376,082</u>	<u>953,901</u>	<u>20,329,983</u>
Expenditures/Expenses			
Primary preservation	4,921,214	(4,921,214)	-
Primary maintenance	4,713,781	(429,695)	4,284,086
Local preservation	1,914,020	(1,914,020)	-
Local maintenance	5,506,140	(504,424)	5,001,716
Administrative	996,546	(44,722)	951,824
Net equipment expense	(494,214)	494,214	-
Net capital outlay			
Capital outlay	390,885	(390,885)	-
Depreciation (offset)	(484,627)	484,627	-
Depreciation expense	-	7,823,006	7,823,006
Other non-motorized pathway	1,025,029	-	1,025,029
Total Expenditures	<u>18,488,774</u>	<u>596,887</u>	<u>19,085,661</u>
Excess of Revenue Over (Under) Expenditures	887,308	(887,308)	-
Change in Net Assets	-	1,244,322	1,244,322
Fund Balance/Net Assets - Beginning of Year	5,297,842	113,179,260	118,477,102
Fund Balance/Net Assets - End of Year	<u>\$ 6,185,150</u>	<u>\$ 113,536,274</u>	<u>\$ 119,721,424</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2009

Net change in fund balance	\$ 887,308
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Amounts reported for governmental activities in the statement of activities are different because:

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.

Development projects transferred in	953,901
Expenditures for capital assets	7,226,119
Current year depreciation	(7,823,006)

Change in Net Assets of Governmental Activities	<u>\$ 1,244,322</u>
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See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Kalamazoo County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the commission are discussed below.

A. Reporting Entity

The commission is governed by a five-member board of county road commissioners appointed by the Kalamazoo County Board of Commissioners. The commission is a component unit of the Kalamazoo County and its financial statements are an integral part of the comprehensive annual financial report of the Kalamazoo County.

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Kalamazoo County Road Commission, a discretely presented component unit of Kalamazoo County, and include the commission's general operations fund.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements – Government-Wide Statements

The statement of net assets and the statement of activities display information about the commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

The government-wide statement of activities presents a comparison between program expenses and program revenues. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws from the resources of the commission.

This government-wide approach is focused more on the sustainability of the commission as an entity and the change in the commission's net assets from the current year's activities.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Basic Financial Statement – Fund Financial Statements

The accounts of the commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The commission's operations are accounted for in one fund, the general operations fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The commission has only one major fund and no non-major funds.

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. In accordance with this basis, revenues are recognized when they become measurable and available. Available is defined as being received within two months of year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

D. Cash and Cash Equivalents

The commission's cash and cash equivalents are considered to be demand deposits and short-term investments with a maturity date of three months or less when acquired.



KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Inventories and Prepaid Items

Inventories are valued at the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used. Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

F. Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-year's-digits methods for road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road equipment	5 – 8
Other equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

G. Budgets and Budgetary Accounting

Budgetary procedures require the commissioners to approve a budget for the general operations of the fund. Pursuant to this requirement, the 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.

Law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget.

NOTE 2--Cash, Cash Equivalents and Investments

The county road commission is legally authorized to deposit and invest in the following:

1. In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
2. In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the FDIC, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the purchase date.
4. In United States government or federal agency obligation repurchase agreements.
5. In banker's acceptance of United States banks.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash, Cash Equivalents and Investments

6. In obligations of the state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts be made with banks having a place of business in the State of Michigan.

At year-end, the carrying amount of the commission's deposits was \$3,892,359 and the bank balance and county balance was \$4,126,099. Of the bank balance and county balance, \$237,440 was covered by federal depository insurance and \$3,888,659 was uninsured and uncollateralized.

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents the county road commission's insured or collateralized deposits with securities held by the commission or by its agent in the commission's name.
- Category 2 represents the county road commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the county road commission's name.
- Category 3 represents the county road commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the county road commission's name.

	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ -	\$ -	\$ 3,500	\$ 237,440	\$ 3,500
Funds held by County	-	-	3,888,659	3,888,659	3,888,659
Cash on hand	-	-	200	-	200
<b>Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,892,359</b>	<b>\$ 4,126,099</b>	<b>\$ 3,892,359</b>

It is the policy of the Commission to deposit excess monies with the Kalamazoo County Treasurer; investments are made at his/her discretion.

**KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3--Capital Assets and Depreciation**

Changes in capital assets for the year are as follows:

	Balance 12-31-2008	Additions	Retirements/ Transfers	Balance 12-31-2009
<b>Capital Assets Not Being Depreciated</b>				
Land and improvements	\$ 1,198,399	\$ -	\$ -	\$ 1,198,399
Land and improvements, infrastructure	16,442,889	2,005,882	-	18,448,771
<b>Total Land and improvements</b>	<u>17,641,288</u>	<u>2,005,882</u>	<u>-</u>	<u>19,647,170</u>
<b>Other Capital Assets</b>				
Buildings and improvements	3,594,979	29,232	-	3,624,211
Road equipment	6,363,884	333,372	111,961	6,809,217
Other equipment	1,249,669	28,281	(352,730)	925,220
Infrastructure and improvements	204,372,196	5,783,253	(85,644)	210,069,805
<b>Total Other Capital Assets</b>	<u>215,580,728</u>	<u>6,174,138</u>	<u>(326,413)</u>	<u>221,428,453</u>
<b>Total Capital Assets</b>	<u>233,222,016</u>	<u>8,180,020</u>	<u>(326,413)</u>	<u>241,075,623</u>
<b>Accumulated Depreciation</b>				
Buildings and improvements	(2,012,496)	(68,198)	1,173	(2,079,521)
Road equipment	(5,654,556)	(400,749)	(60,133)	(6,115,438)
Other equipment	(1,133,178)	(15,680)	299,729	(849,129)
Infrastructure and improvements	(111,242,526)	(7,338,379)	85,644	(118,495,261)
<b>Total Accumulated Depreciation</b>	<u>(120,042,756)</u>	<u>(7,823,006)</u>	<u>326,413</u>	<u>(127,539,349)</u>
<b>Total Net Capital Assets</b>	<u>\$ 113,179,260</u>	<u>\$ 357,014</u>	<u>\$ -</u>	<u>\$ 113,536,274</u>

**NOTE 4--Defined Benefit Pension Plan**

**Plan Description**

The commission's defined benefit pension plan provides retirement, disability and death benefits to plan members and beneficiaries. The 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 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

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Defined Benefit Pension Plan (continued)

required supplementary 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 commission is required to contribute at an actuarially determined rate; the current rate is 0.00% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements are established by 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 commission depending on the plan's contribution program.

Annual Pension Cost

For the year ended December 31, 2009, the commission's annual pension cost of \$0 for the plan approximated the commission's required and 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% and (b) projected salary increases of 4.5% to 10.8% per year compounded annually, attributable to inflation. The actuarial value of the plan assets was determined on the basis of a market value method with five years smoothing.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

The amortization method is level percent of payroll, closed period.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-06	-	100.00%	-
12-31-07	-	100.00%	-
12-31-08	-	100.00%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability Entry Age {b}	Unfunded AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	UAAL as a % of Covered Payroll {b-a}/{c}
12-31-06	19,982,947	14,229,642	(5,753,305)	140.4%	3,073,779	-187.2%
12-31-07	18,307,775	12,714,350	(5,593,425)	144.0%	3,062,522	-182.6%
12-31-08	18,388,721	13,052,992	(5,335,729)	140.9%	3,114,099	-171.3%

NOTE 5--Post Employment Healthcare Plan

Plan Description

The commission's defined benefit postemployment healthcare plan, Kalamazoo County Retiree Healthcare Plan (KCRHP), provides medical benefits to eligible retired commission employees. KCRHP is affiliated with the Kalamazoo County Voluntary Employees' Beneficiary Association Trust, an agent multiple-employer postemployment healthcare plan administered by the Kalamazoo County Employees Retirement System. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the plan. The Kalamazoo County Retiree Healthcare Plan issues a publicly available financial report that includes financial statements and required

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Post Employment Healthcare Plan (continued)

Plan Description (continued)

supplementary 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 commission is required to contribute at an actuarially determined amount; the current amount is \$345,825. Beginning in 2009, retirees contribute 8% of the cost for health insurance. The contribution requirements are established by Kalamazoo County Employees Retirement System based on an actuarial valuation. The contribution requirement of plan members is established and may be amended by the commission depending on the plan's contribution program.

Annual OPEB Cost

During 2007, the commission implemented GASBS No. 45 prospectively (zero net OPEB obligation at transition). For 2007 and 2008 the actuarially determined annual required contribution was \$782,146 for each year. The commission actually contributed \$655,283 and \$733,240 for 2007 and 2008, respectively. For 2009, the actuarially determined annual required contribution was \$345,825. The commission actually contributed \$566,662 for 2009. The resulting net OPEB asset or obligation is not considered to be significant related to the financial statements taken as a whole and has not been recorded as an asset or liability 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% and (b) projected

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Post Employment Healthcare Plan (continued)

salary increases of 4.50 % to 10.80% per year compounded annually, attributable to inflation.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB (Obligation) Asset</u>
12-31-2007	\$ 782,146	83.8%	\$ (126,863)
12-31-2008	791,978	92.6%	(185,601)
12-31-2009	350,542	158.8%	20,519

The funded status of the plan as of December 31, 2008 was as follows:

Actuarial Accrued Liability (AAL)	\$ 88,429,869
Actuarial Value of Plan Assets	3,463,105
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 84,966,764</u>
Funded Ratio	3.9%
Projected Payroll For The Fiscal Year Beginning January 1, 2009	\$ 57,768,078
UAAL as a percentage of covered payroll	147.1%

NOTE 6--Risk Management

The 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.

During 2009, the commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.



KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Risk Management

Also during 2009, the commission participated in the County Road Association Self Insurance Fund (SIF) for its workers compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through member premiums.

In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retroactively. The 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  
 GENERAL OPERATIONS FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
<b>Revenue</b>				
Michigan Transportation Fund	\$ 12,089,411	\$ 12,188,762	\$ 12,466,557	\$ 277,795
State - Other Funds	155,000	-	-	-
Township and City contributions	1,410,000	1,401,791	1,410,791	9,000
Federal	1,948,726	4,328,149	4,051,885	(276,264)
Critical Bridge	-	-	152,569	152,569
Local Jobs Today	-	-	6,941	6,941
Interest	100,000	51,381	59,616	8,235
Other	130,000	824,597	1,227,723	403,126
<b>Total Revenue</b>	<u>15,833,137</u>	<u>18,794,680</u>	<u>19,376,082</u>	<u>581,402</u>
<b>Expenditures</b>				
Preservation and maintenance	15,125,920	18,283,417	18,080,184	203,233
Administration	1,027,025	972,014	996,546	(24,532)
Capital Outlay	1,235,302	431,731	390,885	40,846
Equipment	(71,470)	(474,322)	(494,214)	19,892
Depreciation	(550,000)	(475,000)	(484,627)	9,627
<b>Total Expenditures</b>	<u>16,766,777</u>	<u>18,737,840</u>	<u>18,488,774</u>	<u>249,066</u>
Excess of Revenues Over (Under) Expenditures	(933,640)	56,840	887,308	830,468
Fund Balance, Beginning of Year	5,297,842	5,297,842	5,297,842	-
<b>Fund Balance, End of Year</b>	<u>\$ 4,364,202</u>	<u>\$ 5,354,682</u>	<u>\$ 6,185,150</u>	<u>\$ 830,468</u>

**ADDITIONAL SUPPLEMENTAL INFORMATION**

KALAMAZOO COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE -- SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Primary <u>Roads</u>	Local <u>Roads</u>	County <u>Road Funds</u>	<u>Total</u>
<b>Revenues</b>				
Transportation Fund				
Engineering	\$ 7,600	\$ 2,400	\$ -	\$ 10,000
Snow removal	1,096	1,987	-	3,083
Urban road	1,766,305	519,796	-	2,286,101
Allocation	7,727,678	2,439,694	-	10,167,372
Total Transportation Fund	<u>9,502,679</u>	<u>2,963,877</u>	<u>-</u>	<u>12,466,556</u>
Federal	3,026,856	-	1,025,029	4,051,885
State - Critical Bridge	152,569	-	-	152,569
State - Jobs Today Program	6,941	-	-	6,941
Township & City contributions	156,507	1,254,409	-	1,410,916
Other contributions and charges for services	37,051	1,125,190	9,548	1,171,789
Total County	<u>12,882,603</u>	<u>5,343,476</u>	<u>1,034,577</u>	<u>19,260,656</u>
Other				
Gain on disposal	-	-	24,007	24,007
Special assessments	-	31,802	-	31,802
Interest earned	34,620	2,030	22,966	59,616
Total Other	<u>34,620</u>	<u>33,832</u>	<u>46,973</u>	<u>115,425</u>
Total Revenues	<u>12,917,223</u>	<u>5,377,308</u>	<u>1,081,550</u>	<u>19,376,081</u>
<b>Expenditures</b>				
Construction - capacity improvement	-	1,051,981	-	1,051,981
Preservation - structural improvements	4,921,214	862,039	-	5,783,253
Maintenance	4,713,781	5,506,140	-	10,219,921
Total Preservation and Maintenance	<u>9,634,995</u>	<u>7,420,160</u>	<u>-</u>	<u>17,055,155</u>
Other				
Administrative expense	562,980	433,566	-	996,546
Net equipment expense	(199,316)	(283,481)	(11,418)	(494,215)
Net capital outlay	-	-	(93,742)	(93,742)
Other - non motorized pathway	-	-	1,025,029	1,025,029
Total Other	<u>363,664</u>	<u>150,085</u>	<u>919,869</u>	<u>1,433,618</u>
Total Expenditures	<u>9,998,659</u>	<u>7,570,245</u>	<u>919,869</u>	<u>18,488,773</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	2,918,564	(2,192,937)	161,681	887,308
Other Financing Sources (Uses)				
Optional transfers	(2,192,937)	2,192,937	-	-
Total Other Financing Sources (Uses)	<u>(2,192,937)</u>	<u>2,192,937</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	725,627	-	161,681	887,308
Fund Balances, Beginning	3,185,011	-	2,112,831	5,297,842
<b>Fund Balances, Ending</b>	<u>\$ 3,910,638</u>	<u>\$ -</u>	<u>\$ 2,274,512</u>	<u>\$ 6,185,150</u>

KALAMAZOO COUNTY ROAD COMMISSION  
SCHEDULE OF FEDERAL FINANCIAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Federal CFDA Number	Passed Through Grantor ID	Cash Accrued or (Deferred) Revenue January 1, 2009	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash Accrued or (Deferred) Revenue December 31, 2009
U.S. Department of Transportation Highway Research, Planning and Construction Passed through State of Michigan Department of Transportation	20.205					
D Avenue at 14th Street	100336A		\$ -	\$ 3,009	\$ 3,009	\$ -
Drake at Stonebrook	100337A		-	1,488	1,488	-
G Ave - 150' e/o 37th St to 39th St	76312A		-	945	945	-
9th Street - Meridian to Quail	83203A		-	6,709	6,709	-
Ravine Road - At Squires Drive	103128A		-	25,957	25,957	-
Mosel Ave - Westnedge Ave to Kal River Bridge	89461A		-	16,618	16,618	-
VW Ave - 14th St to 18th St	90179A		-	52,280	52,280	-
Sprinkle Road-Zylman to ML CMAQ project	90350A		-	873,726	873,726	-
43rd Street - R Avenue to Q Avenue	76624A		-	530,184	530,184	-
Veterans Mem Pk to Riverview and Mosel Int	102071A		-	1,025,029	1,025,029	-
S Ave - S Sprinkle Rd to 29th Street	102767A		-	840,047	840,047	-
12th Street - D Ave to C Ave	106603A		-	369,225	369,225	-
8th Street - R Ave to Q Ave	106604A		-	287,347	287,347	-
38th Street - MN Ave to Climax Dr	82835A		-	820	820	-
KL Ave at 11th Street	90387A		-	100	100	-
42nd St - TS Ave to 43rd & 43rd - 42nd to R Ave	76271A		-	18,401	18,401	-
Total Federal Assistance			\$ -	\$ 4,051,885	\$ 4,051,885	\$ -

Note: Federal financial awards received under the highway planning and construction program in the amount of \$4,051,885 are administered by the State of Michigan. The Road Commission has no responsibilities regarding fiscal or compliance controls over such assistance.



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 1, 2010

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2009, and have issued our report thereon dated April 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kalamazoo County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kalamazoo County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kalamazoo County Road Commission's internal control over financial reporting.

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Page Two

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalamazoo County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

  
Certified Public Accountants