

Kalamazoo County Road Commission

**Financial Report
with Supplemental Information
December 31, 2011**

Kalamazoo County Road Commission

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements - Government-wide/Governmental Fund Financial Statements	
Governmental Fund Balance Sheet/Statement of Net Assets	8
Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets	9
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities	10
Reconciliation of Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance to Statement of Activities	11
Notes to Financial Statements	12-23
Required Supplemental Information	24
Budgetary Comparison Schedule - Road Fund	25
Other Supplemental Information	26
Analysis of Revenue, Expenditures, and Changes in Fund Balance - Road Fund	27



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Independent Auditor's Report

To the Board of County
Road Commissioners
Kalamazoo County Road Commission

We have audited the accompanying financial statements of the governmental activities and the Road Fund of Kalamazoo County Road Commission (a component unit of Kalamazoo County) (the "Road Commission") as of and for the year ended December 31, 2011, 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 Road Fund of Kalamazoo County Road Commission at December 31, 2011 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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.

To the Board of County
Road Commissioners
Kalamazoo County Road Commission

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

As described in Note 1, the Road Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, during the year. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB Statement No. 54.

Plante & Moran, PLLC

March 13, 2012

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, 2011. 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, 2011 and 2010 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, 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 Assets

	December 31	
	2011	2010
Assets		
Other assets	\$ 9,567,817	\$ 8,099,159
Capital assets	<u>112,694,808</u>	<u>113,804,552</u>
Total assets	122,262,625	121,903,711
Liabilities - Current liabilities	961,642	987,271
Net Assets		
Unrestricted net assets	8,606,175	7,111,888
Invested in capital assets - Net of related debt	<u>112,694,808</u>	<u>113,804,552</u>
Total net assets	<u>\$ 121,300,983</u>	<u>\$ 120,916,440</u>

Kalamazoo County Road Commission

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Year Ended December 31	
	2011	2010
Revenue		
Intergovernmental	\$ 16,830,854	\$ 16,192,720
Other contributions and service charges	497,120	1,525,656
Other	168,374	94,800
Total revenue	17,496,348	17,813,176
Expenses		
Primary maintenance	4,620,264	4,481,317
Local maintenance	4,377,159	4,364,147
Depreciation	7,727,357	7,594,318
Administrative	949,135	1,090,770
Equipment rental and other charges	(640,146)	(973,977)
Nonroad-related projects	78,036	61,585
Total expenses	17,111,805	16,618,160
Change in Net Assets	\$ 384,543	\$ 1,195,016

The Road Commission's revenue for the year ended December 31, 2011 decreased approximately 1.8 percent from the prior year. This decrease was due principally to decrease in value of donated property, included in the other contribution and service charges revenue line. Total expenses for the year increased by approximately 3 percent due to a decrease in equipment rental and other charges to the various projects, which offsets total expenses. Overall, the Road Commission added \$384,543 to net assets.

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 2011 budget during the year. The final budget for revenue was \$600,000 less than the original budget, primarily due to less than expected federal and state revenue. Our actual revenue ended the year higher than expected, primarily due to the additional revenue received from the Michigan Transportation Fund and Townships. The final budget for expenditures was approximately \$2,444,000 less than the original budget, due to less than expected federal and state expense. Actual expenditures at the end of the year were approximately \$434,000 more than the final amended budget, primarily due to the Road Commission spending more on preservation and structural-related expenses.

Capital Assets

The Road Commission ended the year with a decrease in net capital assets amounting to \$1,109,744. 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	
	2011	2010
Land and improvements	\$ 20,675,386	\$ 20,313,674
Buildings and improvements	4,070,148	3,838,834
Road equipment	7,464,189	7,268,407
Other equipment	587,659	577,708
Infrastructure and improvements	163,031,707	160,208,498
Total capital assets	195,829,089	192,207,121
Accumulated depreciation	(83,134,281)	(78,402,569)
Net capital assets	<u>\$ 112,694,808</u>	<u>\$ 113,804,552</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 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.kalamazoocountyroads.com.

Kalamazoo County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2011

	Road Fund	Adjustments	Statement of Net Assets
Assets			
Cash (Note 3)	\$ 5,759,668	\$ -	\$ 5,759,668
Due from other governmental units:			
State transportation department	2,068,049	-	2,068,049
Due on County road agreements	277,315	-	277,315
Special assessments receivable	133,791	-	133,791
Inventories:			
Equipment, materials, and parts	37,666	-	37,666
Road materials	837,162	-	837,162
Deferred expenses	210,487	-	210,487
Prepaid expenses	107,243	-	107,243
Advances	42,526	-	42,526
Restricted assets - Kalamazoo Area Transportation Study (Note 3)	93,910	-	93,910
Capital assets (Note 4):			
Assets not being depreciated	-	20,675,386	20,675,386
Assets being depreciated	-	92,019,422	92,019,422
	<u>\$ 9,567,817</u>	<u>\$ 112,694,808</u>	<u>\$ 122,262,625</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 740,359	\$ -	\$ 740,359
Accrued liabilities	84,847	-	84,847
Advances	42,526	-	42,526
Deferred revenue	127,457	(127,457)	-
Kalamazoo Area Transportation Study	93,910	-	93,910
	<u>1,089,099</u>	<u>(127,457)</u>	<u>961,642</u>
Total liabilities			
	<u>1,089,099</u>	<u>(127,457)</u>	<u>961,642</u>
Fund Balance/Net Assets			
Nonspendable - Inventories and prepaids	1,192,558	(1,192,558)	-
Unassigned	7,286,160	(7,286,160)	-
	<u>8,478,718</u>	<u>(8,478,718)</u>	<u>-</u>
Total fund balances			
	<u>8,478,718</u>	<u>(8,478,718)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 9,567,817</u>		
Net Assets			
Investments in capital assets - Net of related debt		112,694,808	112,694,808
Unrestricted		8,606,175	8,606,175
		<u>121,300,983</u>	<u>121,300,983</u>
Total net assets		<u>\$ 121,300,983</u>	<u>\$ 121,300,983</u>

Kalamazoo County Road Commission

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets December 31, 2011

Total governmental fund balance	\$ 8,478,718
Capital assets used in governmental activities are not financial resources and are not reported in the funds	112,694,808
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	<u>127,457</u>
Government-wide net assets	<u>\$ 121,300,983</u>

Kalamazoo County Road Commission

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2011

	Road Fund	Adjustments	Statement of Activities
Revenue			
Michigan Transportation Fund	\$ 12,748,974	\$ -	\$ 12,748,974
Federal grants	2,278,144	-	2,278,144
Critical bridge	62,665	-	62,665
State Economic Development program	221,843	-	221,843
Township and city contributions	1,519,228	-	1,519,228
Other contributions and service charges	497,120	-	497,120
Other revenue	208,706	(40,332)	168,374
	<u>17,536,680</u>	<u>(40,332)</u>	<u>17,496,348</u>
Total revenue	17,536,680	(40,332)	17,496,348
Expenditures/Expenses			
Primary preservation	4,610,759	(4,610,759)	-
Primary maintenance	4,620,264	-	4,620,264
Primary construction	4,665	(4,665)	-
Local preservation	1,430,280	(1,430,280)	-
Local maintenance	4,377,159	-	4,377,159
Administrative	949,135	-	949,135
Capital outlay	739,698	(739,698)	-
Less equipment rental and other charged to other expenditures	(640,146)	-	(640,146)
Depreciation expense	-	7,727,357	7,727,357
Nonroad-related projects	78,036	-	78,036
	<u>16,169,850</u>	<u>941,955</u>	<u>17,111,805</u>
Total expenditures/expenses	16,169,850	941,955	17,111,805
Net Change in Fund Balance	1,366,830	(982,287)	384,543
Fund Balance/Net Assets - Beginning of year	<u>7,111,888</u>	<u>113,804,552</u>	<u>120,916,440</u>
Fund Balance/Net Assets - End of year	<u>\$ 8,478,718</u>	<u>\$ 112,822,265</u>	<u>\$ 121,300,983</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, 2011

Net change in fund balance	\$ 1,366,830
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:	
Expenditures for capital assets	6,785,402
Current year depreciation	(7,727,357)
Net book value of capital assets disposed of	(167,789)
Special assessment 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	<u>127,457</u>
Change in net assets of governmental activities	<u><u>\$ 384,543</u></u>

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

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 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.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

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, 2011

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 other contributions.

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 \$127,457, which is considered to be unavailable.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

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, 2011, the Road Commission recorded restricted cash and a liability to KATS for \$93,910 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.

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

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

- Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- 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 Road Commission or by the managing director, who is authorized by resolution of the Board of County Road Commissioners to make assignments
- Unassigned - Amounts that can be used for any purpose

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

Note 1 - Significant Accounting Policies (Continued)

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

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

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.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

Note 2 - Stewardship, Compliance, and Accountability (Continued)

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, 2011, the Road Commission incurred the following expenditures that were in excess of amounts budgeted:

	Amended Budget	Actual	Variance
Construction and capacity	\$ 360,000	\$ 366,377	\$ (6,377)
Preservation and structural	5,446,633	5,679,327	(232,694)
Routine and preventative	8,912,321	8,997,423	(85,102)
Capital outlay	728,550	739,698	(11,148)
Work performed for others	63,000	78,036	(15,036)

Construction and capacity expenditures were greater than the amended budget due to donated infrastructure being higher than expected. This expenditure is offset by a matching revenue.

Preservation and structural expenditures were greater than the amended budget because of expenditures incurred in 2011 on projects that were included in the previous year's budget.

Routine and preventative expenditures were greater than the amended budget because 2011 local road chip seal projects were more than expected.

Capital outlay was greater than the amended budget due to the purchase of tailgate sanders that was not anticipated in the budget.

Work performed for others was over budget due to expenses incurred on the Kalamazoo River Valley Trailway project. These expenditures were offset by a matching revenue.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

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 three 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 \$4,747,102 of bank deposits (checking accounts) that were uninsured. Included in these bank deposits is \$93,910 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, 2011

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	\$ 475,599	\$ -	\$ -	\$ 475,599
Infrastructure and improvements	19,838,075	361,712	-	20,199,787
Total land and improvements	20,313,674	361,712	-	20,675,386
Capital assets being depreciated:				
Buildings and improvements	3,838,834	401,090	(169,776)	4,070,148
Road equipment	7,268,407	281,792	(86,010)	7,464,189
Other equipment	577,708	56,815	(46,864)	587,659
Infrastructure and improvements	160,208,498	5,683,993	(2,860,784)	163,031,707
Total capital assets being depreciated	171,893,447	6,423,690	(3,163,434)	175,153,703
Total capital assets	192,207,121	6,785,402	(3,163,434)	195,829,089
Less accumulated depreciation for:				
Buildings and improvements	(2,147,185)	(76,741)	4,190	(2,219,736)
Road equipment	(6,129,004)	(429,689)	83,807	(6,474,886)
Other equipment	(534,668)	(16,951)	46,864	(504,755)
Infrastructure and improvements	(69,591,712)	(7,203,976)	2,860,784	(73,934,904)
Total depreciation	(78,402,569)	(7,727,357)	2,995,645	(83,134,281)
Net capital assets being depreciated	93,490,878	(1,303,667)	(167,789)	92,019,422
Net capital assets	<u>\$ 113,804,552</u>	<u>\$ (941,955)</u>	<u>\$ (167,789)</u>	<u>\$ 112,694,808</u>

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

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 supplemental 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, 2011, 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, 2010 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 distributes the effect of short-term volatility over a five-year period.

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

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

Note 5 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information	Fiscal Years Ended December 31		
	2009	2010	2011
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Schedule of Funding Progress	Actuarial Valuation as of December 31		
	2008	2009	2010
Actuarial value of plan assets	\$ 18,388,721	\$ 18,277,106	\$ 18,347,379
Actuarial accrued liability (AAL) entry age	\$ 13,052,992	\$ 13,398,414	\$ 13,253,098
Underfunded AAL (UAAL)	\$ (5,335,729)	\$ (4,878,692)	\$ (5,094,281)
Funded ratio	141%	136%	138%
Covered payroll	\$ 3,114,099	\$ 2,758,960	\$ 2,747,330
UAAL as a percentage of covered payroll	(171%)	(177%)	(185%)

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 \$245,411 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. Beginning January 1, 2012, Road Commission retirees will pay 16 percent of the cost of their health insurance premiums.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

Note 6 - Other Postemployment Benefits (Continued)

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

	Fiscal Years Ended December 31		
	2009	2010	2011
Annual covered payroll	\$ 2,950,857	\$ 2,705,045	\$ 2,483,917
Required contribution rate	10.63%	9.88%	9.88%
Required contribution	\$ 313,676	\$ 267,258	\$ 245,411
Actual contribution made	\$ 563,177	\$ 247,696	\$ 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 assets.

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

Valuation as of December 31, 2009:

Actuarial value of assets	\$ 1,233,280
Actuarial accrued liability	\$ 4,936,576
Unfunded AAL	\$ (3,703,296)
Funded ratio	24.98%
Annual covered payroll	\$ 2,950,857
Ratio of UAAL to covered payroll	(125.50%)

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 as required supplemental information following the notes to the financial statements, 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.

Kalamazoo County Road Commission

Notes to Financial Statements December 31, 2011

Note 6 - Other Postemployment Benefits (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (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 9.22 percent per year compounded annually, with 4.5 percent attributable to inflation, and a healthcare cost trend rate of 9 percent. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009 was 30 years.

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 2011, 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, 2011

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Michigan Transportation Fund	\$ 11,961,000	\$ 12,500,000	\$ 12,748,974	\$ 248,974
Federal, state, and enhancements	4,446,274	2,591,641	2,562,652	(28,989)
Townships	988,700	1,471,758	1,576,953	105,195
Cities and other governmental	37,500	20,000	18,493	(1,507)
Interest	50,000	20,000	17,007	(2,993)
Other	290,000	565,000	612,601	47,601
Total revenue	17,773,474	17,168,399	17,536,680	368,281
Expenditures				
Construction and capacity	-	360,000	366,377	(6,377)
Preservation and structural	8,620,633	5,446,633	5,679,327	(232,694)
Routine and preventative	7,254,721	8,912,321	8,997,423	(85,102)
Administration	1,010,572	1,020,572	949,135	71,437
Capital outlay	831,250	728,550	739,698	(11,148)
Equipment rental and other charged to other expenditures	(1,123,858)	(795,000)	(640,146)	(154,854)
Work performed for others	-	63,000	78,036	(15,036)
Distributive	1,587,345	-	-	-
Total expenditures	18,180,663	15,736,076	16,169,850	(433,774)
Excess of Revenue (Under) Over Expenditures	(407,189)	1,432,323	1,366,830	(65,493)
Fund Balance - Beginning of year	7,111,888	7,111,888	7,111,888	-
Fund Balance - End of year	\$ 6,704,699	\$ 8,544,211	\$ 8,478,718	\$ (65,493)

Other Supplemental Information

Kalamazoo County Road Commission

Analysis of Revenue, Expenditures, and Changes in Fund Balance - Road Fund Year Ended December 31, 2011

	Primary Roads	Local Roads	County Road Funds	Total
Revenue				
Michigan Transportation Fund:				
Engineering	\$ 7,601	\$ 2,399	\$ -	\$ 10,000
Snow removal	1,056	1,918	-	2,974
Urban road	1,783,138	528,561	-	2,311,699
Allocation	7,923,998	2,500,303	-	10,424,301
Total Michigan Transportation Fund	9,715,793	3,033,181	-	12,748,974
Economic Development Fund:				
Target industries	152,995	-	-	152,995
Rural primary	68,848	-	-	68,848
Total Economic Development Fund	221,843	-	-	221,843
Governmental funding:				
Federal	2,278,144	-	-	2,278,144
Local bridge	62,665	-	-	62,665
Township and city contributions	62,475	1,468,043	18,493	1,549,011
Other contributions and changes for services	34,292	60,097	(48,052)	46,337
Total governmental funding	12,375,212	4,561,321	(29,559)	16,906,974
Other:				
Gain on equipment disposals	-	-	3,340	3,340
Special assessments	-	76,218	-	76,218
Private contributions	-	361,712	-	361,712
Interest earned	10,075	1,418	9,154	20,647
Total other	10,075	439,348	12,494	461,917
Total revenue	12,385,287	5,000,669	(17,065)	17,368,891
Expenditures				
Construction - Capacity improvements	4,665	361,712	-	366,377
Preservation - Structural improvements	4,610,759	1,068,568	-	5,679,327
Maintenance	4,620,264	4,377,159	-	8,997,423
Total preservation and maintenance	9,235,688	5,807,439	-	15,043,127
Other:				
Administrative expenses	582,719	366,416	-	949,135
Net equipment expenses	(52,032)	(62,047)	(2,686)	(116,765)
Net capital outlay	-	-	48,528	48,528
Other - Services for other units	-	-	78,036	78,036
Total other	530,687	304,369	123,878	958,934
Total expenditures	9,766,375	6,111,808	123,878	16,002,061
Excess of Revenue Over (Under) Expenditures	2,618,912	(1,111,139)	(140,943)	1,366,830
Other Financing (Uses) Sources - Optional transfers	(1,111,139)	1,111,139	-	-
Net Change in Fund Balance	1,507,773	-	(140,943)	1,366,830
Fund Balance - Beginning of year	4,596,509	-	2,515,379	7,111,888
Fund Balance - End of year	\$ 6,104,282	\$ -	\$ 2,374,436	\$ 8,478,718