

**KALAMAZOO COUNTY ROAD COMMISSION**  
**Kalamazoo, Michigan**  
**Financial Statements**  
**December 31, 2007**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name KALAMAZOO COUNTY ROAD COMMISSIO		County KALAMAZOO	
Fiscal Year End 12/31/07		Opinion Date 04/17/08		Date Audit Report Submitted to State 06/02/08			

We affirm that:

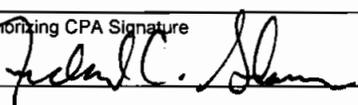
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - The local unit has adopted a budget for all required funds.
  - A public hearing on the budget was held in accordance with State statute.
  - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - The local unit only holds deposits/investments that comply with statutory requirements.
  - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - The local unit is free of repeated comments from previous years.
  - The audit opinion is UNQUALIFIED.
  - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - The board or council approves all invoices prior to payment as required by charter or statute.
  - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.			Telephone Number 989-790-3900	
Street Address 4855 STATE STREET		City SAGINAW	State MI	Zip 48503
Authorizing CPA Signature 		Printed Name FREDERICK C. GARDNER		License Number 9577

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

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

## INDEPENDENT AUDITOR'S REPORT

April 17, 2008

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, 2007, 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, 2007 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  
Page Two

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 17, 2008, 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, Scherman & 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, 2007.

## **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>2007</u>	<u>2006</u>
<b>Assets</b>		
General fund	\$ 6,094,137	\$ 5,948,301
Capital assets	107,076,303	105,761,048
Total Assets	<u>\$ 113,170,440</u>	<u>\$ 111,709,349</u>
<b>Liabilities</b>		
General fund liabilities	\$ 845,643	\$ 785,163
Total Liabilities	<u>\$ 845,643</u>	<u>\$ 785,163</u>
<b>Net Assets</b>		
General fund balance/net assets	\$ 5,248,494	\$ 5,163,138
Invested in capital assets - net of related debt	107,076,303	105,761,048
Total Net Assets	<u>\$ 112,324,797</u>	<u>\$ 110,924,186</u>

**Condensed Statement of Activities**

<b>Revenue</b>		
Intergovernmental	\$ 17,459,290	\$ 17,763,766
Other contributions and service charges	589,492	182,598
Other	2,134,526	2,651,471
Total Revenue	<u>20,183,308</u>	<u>20,597,835</u>
<b>Expenses</b>		
Primary maintenance	5,179,083	4,612,147
Local maintenance	4,269,039	3,820,820
Depreciation	8,489,104	8,511,563
Administrative	843,614	877,344
Interest	1,857	5,812
Total Expenses	<u>18,782,697</u>	<u>17,827,686</u>
Change In Net Assets	<u>\$ 1,400,611</u>	<u>\$ 2,770,149</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, 2007 was \$1,400,611. 2007 saw continued investment in substantial and important primary road improvement projects such as the 38<sup>th</sup> Street from MN Avenue to Climax Drive project, the N. Westnedge from Mosel Avenue to D Avenue project, and the G Avenue from .03 mile east of 37<sup>th</sup> Street to 39<sup>th</sup> Street project. In addition, the Parkview Avenue from Stadium Drive to Atlantic Avenue was an important project improving safety at Stadium Drive. Of course, the amount of expenditures for capital assets is offset by the current year depreciation.

The ending General Fund net of assets of \$5,248,494 saw an increase from the 2006 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 2007 original budget was adopted in December 2006. The budget is reviewed periodically, amended as information is available or management's plans change.

The revenue and expenditure categories were adjusted as necessary during the year. There were no significant changes on the revenue side. On the expenditure side, the anticipated final budget was reduced to reflect a major improvement project removed from the 2007 primary road preservation-structural improvements as well as projected expenditures being less than expected on other reconstruction projects.

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

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**Amended Budget Versus Actual**

The actual revenue was less than the expectation of the amended budget by \$664,858, or 3.5%. Economic Development and Federal Aid funding for 2007 was less than anticipated.

On the expenditure side, actual expenses were more than budgeted by \$86,426, or .4%.

Major items associated with the unfavorable variance are in the budgeted preservation and maintenance expenditures. There were also cost increases for budgeted routine 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 \$107,076,303, as summarized below.

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 16,701,590	\$ 14,433,268
Buildings and improvements	3,567,546	3,567,546
Road equipment	6,380,454	6,247,598
Other equipment	1,237,102	1,187,966
Infrastructure and improvements	<u>191,341,792</u>	<u>184,041,525</u>
Total Capital Assets	219,228,484	209,477,903
Accumulated Depreciation	<u>(112,152,181)</u>	<u>(103,716,855)</u>
Net Capital Assets	<u>\$ 107,076,303</u>	<u>\$ 105,761,048</u>

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

Additional information regarding long-term debt is included in Note 4 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, 2007

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash	\$ 2,493,273	\$ -	\$ 2,493,273
Accounts Receivable			
State Transportation Department	2,038,406	-	2,038,406
Due on County Road Agreements	152,452	-	152,452
Other	114,229	-	114,229
Inventories			
Equipment materials and parts	59,260	-	59,260
Road materials	834,211	-	834,211
Deferred expense	180,837	-	180,837
Prepaid expense	120,519	-	120,519
Advance	100,950	-	100,950
Capital Assets			
Land and land improvements	-	16,701,590	16,701,590
Other capital assets, net of accumulated depreciation	-	90,374,713	90,374,713
Total Assets	<u>\$ 6,094,137</u>	<u>\$ 107,076,303</u>	<u>\$ 113,170,440</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 436,285	\$ -	\$ 436,285
Accrued liabilities	146,304	-	146,304
Advances	85,950	-	85,950
Deferred revenue	45,750	-	45,750
Escrow agreement	23,400	-	23,400
Kalamazoo Area Transportation Study	107,954	-	107,954
Total Liabilities	<u>845,643</u>	<u>-</u>	<u>845,643</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances:			
Reserved for inventories and prepaids	1,013,990	(1,013,990)	-
Unreserved			
Undesignated	4,234,504	(4,234,504)	-
Total Fund Balance	<u>5,248,494</u>	<u>(5,248,494)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 6,094,137</u>		
Net Assets:			
Invested in capital assets, net of related debt		107,076,303	107,076,303
Restricted for primary		3,135,663	3,135,663
Unrestricted		2,112,831	2,112,831
Total Net Assets		<u>\$ 112,324,797</u>	<u>\$ 112,324,797</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, 2007

Total governmental fund balance	\$ 5,248,494
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	107,076,303
Net Assets of Governmental Activities	<u>\$ 112,324,797</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, 2007

	General <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
<b>Revenue</b>			
Transportation fund	\$ 13,086,969	\$ -	\$ 13,086,969
Federal grants	2,879,962	-	2,879,962
Critical bridge	(2,059)	-	(2,059)
State Jobs Today program	378,778	-	378,778
Township and City contributions	1,288,951	-	1,288,951
Other contributions and service charges	210,714	-	210,714
Other revenues	205,467	2,134,526	2,339,993
Total Revenue	<u>18,048,782</u>	<u>2,134,526</u>	<u>20,183,308</u>
<b>Expenditures</b>			
Primary preservation	6,198,663	(6,198,663)	-
Primary maintenance	5,846,377	(667,294)	5,179,083
Local preservation	1,289,179	(1,289,179)	-
Local maintenance	4,815,006	(545,967)	4,269,039
Administrative	884,644	(41,030)	843,614
Net equipment expense	(533,242)	533,242	-
Net capital outlay			
Capital outlay	181,992	(181,992)	-
Depreciation	(721,050)	721,050	-
Depreciation	-	8,489,104	8,489,104
Interest	1,857	-	1,857
Total Expenditures	<u>17,963,426</u>	<u>819,271</u>	<u>18,782,697</u>
Excess of Revenue Over (Under) Expenditures	85,356	(85,356)	-
Change in Net Assets	-	1,400,611	1,400,611
Fund Balance/Net Assets - Beginning of Year	5,163,138	105,761,048	110,924,186
Fund Balance/Net Assets - End of Year	<u>\$ 5,248,494</u>	<u>\$ 107,161,659</u>	<u>\$ 112,324,797</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, 2007

Net change in fund balance	\$ 85,356
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	2,134,526
Expenditures for capital assets	7,669,833
Current year depreciation	(8,489,104)
Change in Net Assets of Governmental Activities	\$ 1,400,611

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. According to 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 \$2,493,273 and the bank balance and county balance was \$2,728,722. Of the bank balance and county balance, \$100,000 was covered by federal depository insurance and \$2,628,722 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	\$ -	\$ -	\$ 143,073	\$ 378,722	\$ 143,073
Funds held by County	-	-	2,350,000	2,350,000	2,350,000
Cash on hand	-	-	200	-	200
<b>Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,493,273</b>	<b>\$ 2,728,722</b>	<b>\$ 2,493,273</b>

It is the policy of the Commission to deposit excess monies with the Kalamazoo 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 12-31-2006	Additions	Retirements	Balance 12-31-2007
<b>Capital Assets Not Being Depreciated</b>				
Land and improvements	\$ 1,198,399	\$ -	\$ -	\$ 1,198,399
Land and improvements, infrastructure	13,234,869	2,268,322	-	15,503,191
Total Land and improvements	<u>14,433,268</u>	<u>2,268,322</u>	<u>-</u>	<u>16,701,590</u>
<b>Other Capital Assets</b>				
Buildings and improvements	3,567,546	-	-	3,567,546
Road equipment	6,247,598	132,856	-	6,380,454
Other equipment	1,187,966	49,136	-	1,237,102
Infrastructure and improvements	184,041,525	7,354,045	(53,778)	191,341,792
Total Other Capital Assets	<u>195,044,635</u>	<u>7,536,037</u>	<u>(53,778)</u>	<u>202,526,894</u>
Total Capital Assets	<u>209,477,903</u>	<u>9,804,359</u>	<u>(53,778)</u>	<u>219,228,484</u>
<b>Accumulated Depreciation</b>				
Buildings and improvements	(1,863,630)	(78,840)	-	(1,942,470)
Road equipment	(4,719,636)	(572,130)	-	(5,291,766)
Other equipment	(1,033,653)	(70,080)	-	(1,103,733)
Infrastructure and improvements	(96,099,936)	(7,768,054)	53,778	(103,814,212)
Total Accumulated Depreciation	<u>(103,716,855)</u>	<u>(8,489,104)</u>	<u>53,778</u>	<u>(112,152,181)</u>
Total Net Capital Assets	<u>\$ 105,761,048</u>	<u>\$ 1,315,255</u>	<u>\$ -</u>	<u>\$ 107,076,303</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, 2007, 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, 2006 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	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-04	\$ 233,231	101.40%	\$ -
12-31-05	45,570	88.90%	-
12-31-06	-	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}
12-31-04	\$ 17,756,629	\$ 13,864,504	\$ (3,892,125)	128.1%	\$ 2,963,219	-131.3%
12-31-05	18,705,616	14,226,638	(4,478,978)	131.5%	3,082,788	-145.3%
12-31-06	19,982,947	14,229,642	(5,753,305)	140.4%	3,073,779	-187.2%

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

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Post Employment Healthcare Plan (continued)

Plan Description (continued)

available financial report that includes financial statements and 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 23.71% of annual covered payroll. Retirees 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 requirement of plan members, if any, are 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, the commission's annual OPEB cost (expense) of \$692,398 for KCPHP was equal to the annual required contribution. The required annual contribution was determined as part of the December 31, 2004 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.75% and (b) projected salary increases of 4.50 % to 10.80% per year compounded annually, attributable to inflation.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Post Employment Healthcare Plan (continued)

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}
12-31-04	\$ -	\$ 9,215,977	\$ 9,215,977	0.0%	\$ 3,381,525	272.5%

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 2007, 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.

Also during 2007, 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, 2007

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Michigan Transportation Fund	\$ 13,000,000	\$ 13,000,000	\$ 13,086,969	\$ 86,969
Economic Development Fund	72,000	105,700	-	(105,700)
Township and City contributions	950,000	1,130,000	1,188,471	58,471
Federal	3,087,000	3,700,000	2,879,962	(820,038)
Critical Bridge	-	(2,060)	(2,059)	1
Cities	-	-	100,480	100,480
Interest	150,000	160,000	172,820	12,820
Other	1,184,000	620,000	622,139	2,139
Total Revenue	<u>18,443,000</u>	<u>18,713,640</u>	<u>18,048,782</u>	<u>(664,858)</u>
Expenditures				
Preservation and maintenance	19,954,578	17,900,000	18,149,225	(249,225)
Administration	1,170,575	900,000	884,644	15,356
Capital Outlay	673,700	185,000	181,992	3,008
Equipment	(139,850)	(418,000)	(531,385)	113,385
Depreciation	(720,000)	(690,000)	(721,050)	31,050
Total Expenditures	<u>20,939,003</u>	<u>17,877,000</u>	<u>17,963,426</u>	<u>(86,426)</u>
Excess of Revenues Over (Under) Expenditures	(2,496,003)	836,640	85,356	(751,284)
Fund Balance, Beginning of Year	5,163,138	5,163,138	5,163,138	-
Fund Balance, End of Year	<u>\$ 2,667,135</u>	<u>\$ 5,999,778</u>	<u>\$ 5,248,494</u>	<u>\$ (751,284)</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, 2007

	Primary <u>Roads</u>	Local <u>Roads</u>	County <u>Road Funds</u>	<u>Total</u>
<b>Revenues</b>				
Transportation Fund				
Engineering	\$ 7,566	\$ 2,434	\$ -	\$ 10,000
Snow removal	1,139	2,056	-	3,195
Urban road	1,895,132	548,902	-	2,444,034
Allocation	8,042,314	2,587,426	-	10,629,740
Total Transportation Fund	<u>9,946,151</u>	<u>3,140,818</u>	<u>-</u>	<u>13,086,969</u>
Federal	2,868,175	11,787	-	2,879,962
Critical Bridge	(4,269)	2,210	-	(2,059)
State Jobs Today program	378,778	-	-	378,778
Township & City contributions	121,545	1,167,406	-	1,288,951
Other contributions and charges for services	75,479	124,431	10,804	210,714
Subtotal	<u>13,385,859</u>	<u>4,446,652</u>	<u>10,804</u>	<u>17,843,315</u>
Other				
Special assessments	-	32,647	-	32,647
Interest earned	101,884	3,981	66,955	172,820
Total Other	<u>101,884</u>	<u>36,628</u>	<u>66,955</u>	<u>205,467</u>
Total Revenues	<u>13,487,743</u>	<u>4,483,280</u>	<u>77,759</u>	<u>18,048,782</u>
<b>Expenditures</b>				
Preservation - structural improvements	6,198,663	1,289,179	-	7,487,842
Maintenance	5,846,377	4,815,006	-	10,661,383
Total Preservation and Maintenance	<u>12,045,040</u>	<u>6,104,185</u>	<u>-</u>	<u>18,149,225</u>
Other				
Administrative expense	587,109	297,535	-	884,644
Net equipment expense	(252,490)	(271,740)	(9,012)	(533,242)
Net capital outlay	-	-	(539,058)	(539,058)
Interest	-	-	1,857	1,857
Total Other	<u>334,619</u>	<u>25,795</u>	<u>(546,213)</u>	<u>(185,799)</u>
Total Expenditures	<u>12,379,659</u>	<u>6,129,980</u>	<u>(546,213)</u>	<u>17,963,426</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>1,108,084</u>	<u>(1,646,700)</u>	<u>623,972</u>	<u>85,356</u>
Other Financing Sources (Uses)				
Optional transfers	(1,108,084)	1,646,700	(538,616)	-
Total Other Financing Sources (Uses)	<u>(1,108,084)</u>	<u>1,646,700</u>	<u>(538,616)</u>	<u>-</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>-</u>	<u>-</u>	<u>85,356</u>	<u>85,356</u>
Fund Balances, Beginning	3,135,663	-	2,027,475	5,163,138
<b>Fund Balances, Ending</b>	<u>\$ 3,135,663</u>	<u>\$ -</u>	<u>\$ 2,112,831</u>	<u>\$ 5,248,494</u>

KALAMAZOO COUNTY ROAD COMMISSION  
SCHEDULE OF FEDERAL FINANCIAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Federal CFDA Number	Passed Through Grantor ID	Cash Accrued or (Deferred) Revenue January 1, 2007	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash Accrued or (Deferred) Revenue December 31, 2007
U.S. Department of Transportation Highway Research, Planning and Construction Passed through State of Michigan Department of Transportation	20.205					
Sprinkle Road Bridge over N.S. railroad		34870A	\$ -	\$ (22,765)	\$ (22,765)	\$ -
V Ave - bridge over Little Portage Creek		83880A	-	11,787	11,787	-
Stadium Dr - 8th St to 11th St		84866A	-	250,000	250,000	-
Parkview at Stadium		87685A	-	240,000	240,000	-
N. Westnedge Ave - Mosel Ave to D Ave		72142A	-	68,251	68,251	-
N. Westnedge Ave - Mosel Ave to D Ave		82695A	-	736,650	736,650	-
38th St - MN to Climax Dr		82835A	-	744,222	744,222	-
G Ave - 150' e/o 37th St to 39th St		76312A	-	659,783	659,783	-
Nichols Rd - M43 to Alamo Ave		89451A	-	157,794	157,794	-
Drake at Stonebrook		100337A	-	23,120	23,120	-
D Ave at 14th St		100336A	-	11,120	11,120	-
Total Federal Assistance			<u>\$ -</u>	<u>\$ 2,879,962</u>	<u>\$ 2,879,962</u>	<u>\$ -</u>

Note: Federal financial awards received under the highway planning and construction program in the amount of \$2,879,962 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 17, 2008

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, 2007, and have issued our report thereon dated April 17, 2008. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Members of the Board  
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A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Kalamazoo County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Kalamazoo County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Kalamazoo County Road Commission's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding: Road Material Inventory was overstated by approximately \$806,473.

Response: Road Material Inventory was adjusted by \$744,899 and the remaining difference will be accounted for during 2008. Inventory cycle count procedures were changed to ensure that all items are physically counted each year.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Kalamazoo Road Commission's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the deficiency described above to be a material weakness.

Members of the Board  
of County Road Commissioners  
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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.

Kalamazoo County Road Commission's response to the findings identified in our audit is described above. We did not audit Kalamazoo County Road Commission's response and, accordingly, we express no opinion on it.

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.

*Robert Protopapas, Schuman & Thomas*

Certified Public Accountants



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

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

April 17, 2008

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

We have audited the financial statements of Kalamazoo County Road Commission for the year ended December 31, 2007, and have issued our report thereon dated April 18, 2008. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 4, 2006, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kalamazoo County Road Commission are described in Note 1 to the financial statements. As described in Note 5 to the financial statements, the Kalamazoo County Road Commission changed accounting policies related to post employment healthcare by adopting Statement of Governmental Standards No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

To the Members of the Board  
of County Road Commissioners  
April 17, 2008  
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such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute both a significant deficiency and a material weakness:

Finding: Auditing procedures found that Road Material Inventory was overstated by approximately \$806,473.

Response: Road Material Inventory was adjusted by \$744,899 and the remaining difference will be accounted for during 2008. Inventory cycle count procedures were changed to ensure that all items are physically counted each year.

This communication is intended solely for the information and use of management, Members of the Board of County Road Commissioners of Kalamazoo County, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Baibler, Pruntyas, Schuman & Thomas*  
Certified Public Accountants