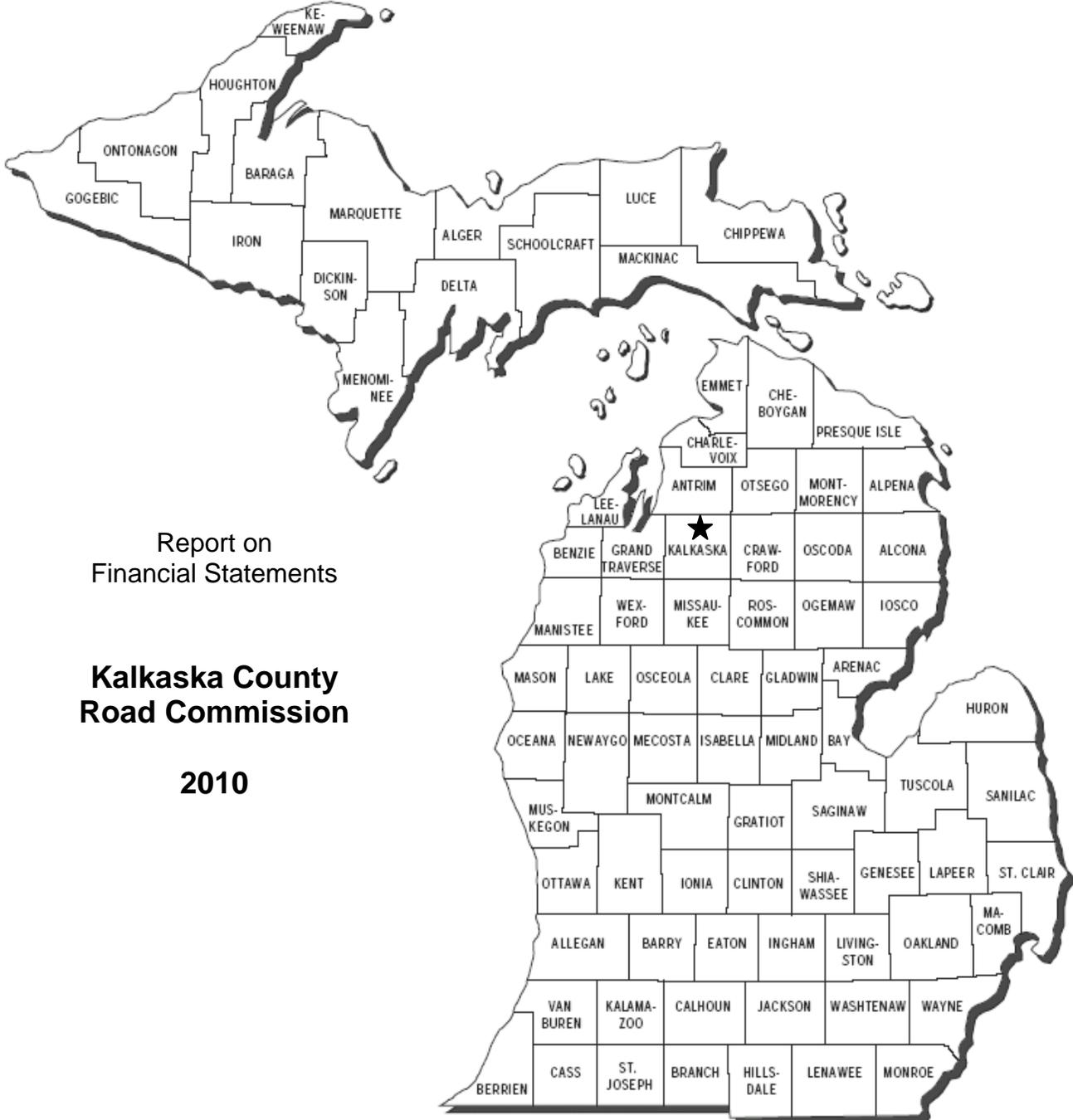


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

ANDY DILLON
State Treasurer



Report on
Financial Statements

**Kalkaska County
Road Commission**

2010

**Local Audit and Finance Division
Bureau of Local Government Services**

KALKASKA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Jacob Uitvlugt
Chairperson

James Green
Vice Chairperson

George Nice
Member

Margaret Custer
Member

Hubert Elliott
Member

James Woodhams
Manager

Rebecca Jerry
Finance Director

COUNTY POPULATION--2010
17,153

STATE EQUALIZED VALUATION--2010
\$885,036,541



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

April 27, 2011

Board of County Road Commissioners
Kalkaska County Road Commission
1049 Island Lake Road
Kalkaska, Michigan 49646

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, Michigan, as of and for the year ended December 31, 2010, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 Road Commission, as of December 31, 2010 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2011, on our consideration of the Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 10 and the budgetary comparison information in Exhibits G and H are not part of the basic 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 required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

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KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2010

Our discussion and analysis of the Kalkaska County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2010. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of its finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Road Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the General Fund, reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2010

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission has only one fund, the General Operating Fund. All of the Road Commission's activities are accounted for in this fund. The General Operating Fund is a governmental fund. Our analysis of the Road Commission's Major Fund begins on page 5 and provides detailed information about the Major Fund.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund is described in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets decreased approximately 6.21% from \$17,071,699 to \$16,011,610 for the year ended December 31, 2010. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, and charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net of related debt) are considered restricted.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010

The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

Net assets as of year ended December 31, 2010 follows:

	<u>2009</u>	<u>2010</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 1,586,626	\$ 1,477,118	\$ (109,508)	-6.90%
Capital Assets	<u>16,767,250</u>	<u>16,378,442</u>	<u>(388,808)</u>	<u>-2.32%</u>
Total Assets	<u>18,353,876</u>	<u>17,855,560</u>	<u>(498,316)</u>	<u>-2.72%</u>
Current and Other Liabilities	158,675	206,026	47,351	29.84%
Long-Term Liabilities	<u>1,123,502</u>	<u>1,637,924</u>	<u>514,422</u>	<u>45.79%</u>
Total Liabilities	<u>1,282,177</u>	<u>1,843,950</u>	<u>561,773</u>	<u>43.81%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	16,767,250	16,378,442	(388,808)	-2.32%
Restricted	<u>304,449</u>	<u>(366,832)</u>	<u>(671,281)</u>	<u>-220.49%</u>
Total Net Assets	<u>\$ 17,071,699</u>	<u>\$ 16,011,610</u>	<u>\$ (1,060,089)</u>	<u>-6.21%</u>

The restricted net assets decreased by \$671,281 during 2010. The primary reason for the decrease was the continued increase in other post-employment benefit obligations of \$512,281 as well as an increase in primary and local routine, preventive maintenance expenses, combined with an increase in compensated absences and infrastructure depreciation. The net assets invested in capital assets-net of related debt decreased by \$388,808 for infrastructure assets. The primary reason for the decrease was the decrease in the amount of funding for projects which added infrastructure as compared with the previous year as well as debt being paid off.

KALKASKA COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010**

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2010 follows:

	<u>2009</u>	<u>2010</u>	<u>Difference</u>	<u>Percent</u>
<u>Governmental Activities</u>				
Program Revenue				
Licenses and Permits	\$ 31,733	\$ 41,386	\$ 9,653	30.42%
Charges for Services	46,801	13,827	(32,974)	-70.46%
General Revenue				
Gain on Equipment Disposal	32,375	-	(32,375)	-100.00%
Operating Grants and Contributions				
Michigan Transportation Funds	3,111,390	3,087,860	(23,530)	-0.76%
Investment Earnings	3,333	1,797	(1,536)	-46.08%
Capital Grants and Contributions				
Federal Grant		321,211	321,211	100.00%
State Grants	82,666		(82,666)	-100.00%
Contributions From Local Units	481,546	107,913	(373,633)	-77.59%
Total Revenues	<u>3,789,844</u>	<u>3,573,994</u>	<u>(215,850)</u>	<u>-5.70%</u>
Expenses				
Primary Routine and Preventive				
Road Maintenance	1,289,866	1,228,453	61,413	4.76%
Local Routine and Preventive				
Road Maintenance	1,287,749	1,446,426	(158,677)	-12.32%
Net Equipment Expense	(101,401)	(12,966)	(88,435)	-87.21%
Net Administrative Expense	405,432	461,040	(55,608)	-13.72%
Infrastructure Depreciation Expense	1,007,039	996,708	10,331	1.03%
OPEB Expense	510,404	512,281	(1,877)	-0.37%
Compensated Absences	12,111	2,141	9,970	82.32%
Other	(2,225)		(2,225)	-100.00%
Interest Expense	841		841	100.00%
Total Program Expenses	<u>4,409,816</u>	<u>4,634,083</u>	<u>(224,267)</u>	<u>-5.09%</u>
Change in Net Assets	<u>(619,972)</u>	<u>(1,060,089)</u>	<u>(440,117)</u>	<u>70.99%</u>
Ending Net Assets	<u>\$ 17,071,699</u>	<u>\$ 16,011,610</u>	<u>\$ (1,060,089)</u>	<u>-6.21%</u>

KALKASKA COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010**

The Road Commission's Fund

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2010, the fund balance of the General Operating Fund decreased \$156,859 compared to an increase of \$247,122 in the fund balance for the year ended December 31, 2009. Total revenues were \$3,573,994, a decrease of \$215,849 compared to last year. The change in revenues resulted primarily from a decrease in State Grants and township contributions. Total expenditures were \$3,730,853, an increase of \$188,132 as compared to the prior year. The change in expenditures is due primarily to a decrease in funding to work on road projects compared to the prior year. Also, capital outlay expenditure increased compared to the prior year.

A summary of changes in the Operating Fund is as follows:

	12/31/09 Operating Fund	12/31/10 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Licenses and Permits	\$ 31,733	\$ 41,386	\$ 9,653	30.42%
Federal Grants		321,211	321,211	100.00%
State Grants	3,194,056	3,087,860	(106,196)	-3.32%
Contributions From Local Units	481,546	107,913	(373,633)	-77.59%
Charges for Services	13,796	12,047	(1,749)	-12.68%
Interest and Rents	3,333	1,797	(1,536)	-46.08%
Other Revenue	65,379	1,780	(63,599)	-97.28%
Total Revenues	<u>3,789,843</u>	<u>3,573,994</u>	<u>(215,849)</u>	<u>-5.70%</u>
Expenditures				
Public Works	3,378,176	3,495,053	(116,877)	-3.46%
Capital Outlay	79,368	235,800	(156,432)	-197.10%
Debt Service	85,177		85,177	100.00%
Total Expenditures	<u>3,542,721</u>	<u>3,730,853</u>	<u>(188,132)</u>	<u>-5.31%</u>
Excess of Revenues Over (Under)				
Expenditures	<u>247,122</u>	<u>(156,859)</u>	<u>(403,981)</u>	<u>-163.47%</u>
Fund Balance--Beginning of Year	<u>1,180,829</u>	<u>1,427,951</u>	<u>247,122</u>	<u>20.93%</u>
Fund Balance--End of Year	<u>\$ 1,427,951</u>	<u>\$ 1,271,092</u>	<u>\$ (156,859)</u>	<u>-10.98%</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board amended its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2010 was \$1,303,500 lower than the original budget. The amended budget reduced Federal Aid and decreased township contributions. The actual revenue recognized during 2010 was \$256,516 less than the final amended budget primarily due to the Road Commission not receiving as much Federal Aid as in the budget projection.

The final expenditure budget for 2010 was \$1,353,380 less than the original budget. The final amended budget decreased the primary and local preservation/structural improvements, and increased capital outlay credits. Actual expenditures were less than the budgeted amount by \$36,147.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2010, the Road Commission had \$16,378,442 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$388,808 or 2.32% as follows:

	<u>2009</u>	<u>2010</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 95,964	\$ 95,964	0.00%
Infrastructure Land Improvements	4,093,003	4,093,003	0.00%
Subtotal	<u>4,188,967</u>	<u>4,188,967</u>	<u>0.00%</u>
Capital Assets Being Depreciated			
Buildings	597,135	597,135	0.00%
Equipment	3,880,953	4,099,193	5.62%
Infrastructure--Roads and Bridges	20,841,368	20,672,613	-0.81%
Subtotal	<u>25,319,456</u>	<u>25,368,941</u>	<u>0.20%</u>
Total Capital Assets	<u>29,508,423</u>	<u>29,557,908</u>	<u>0.17%</u>
Total Accumulated Depreciation	<u>(12,741,173)</u>	<u>(13,179,466)</u>	<u>3.44%</u>
Total Net Capital Assets	<u>\$ 16,767,250</u>	<u>\$ 16,378,442</u>	<u>-2.32%</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010

Infrastructure Assets recorded during 2010 will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year’s major capital asset additions included the following:

Road Equipment	\$229,979
Shop Equipment	4,463
Office Equipment	1,358
Infrastructure--Roads	<u>483,861</u>
Total Additions	<u><u>\$719,661</u></u>

Debt

There was no new installment purchase agreements entered into during 2010.

Economic Factors and Next Year’s Budget

The Board of County Road Commissioners considered many factors when setting the calendar year 2011 budget. One of the main factors continues to be the economy. When the 2010 budget was prepared, it was uncertain the amount of township participation the Road Commission would receive and the Road Commission anticipated receiving ARRA and Federal funds. The anticipated ARRA project’s bid came in lower than expected which allowed an additional .5 mile to be added to the original project. The ARRA project was completed in 2010. The federal funded projects requiring local matching funds were delayed until 2011.

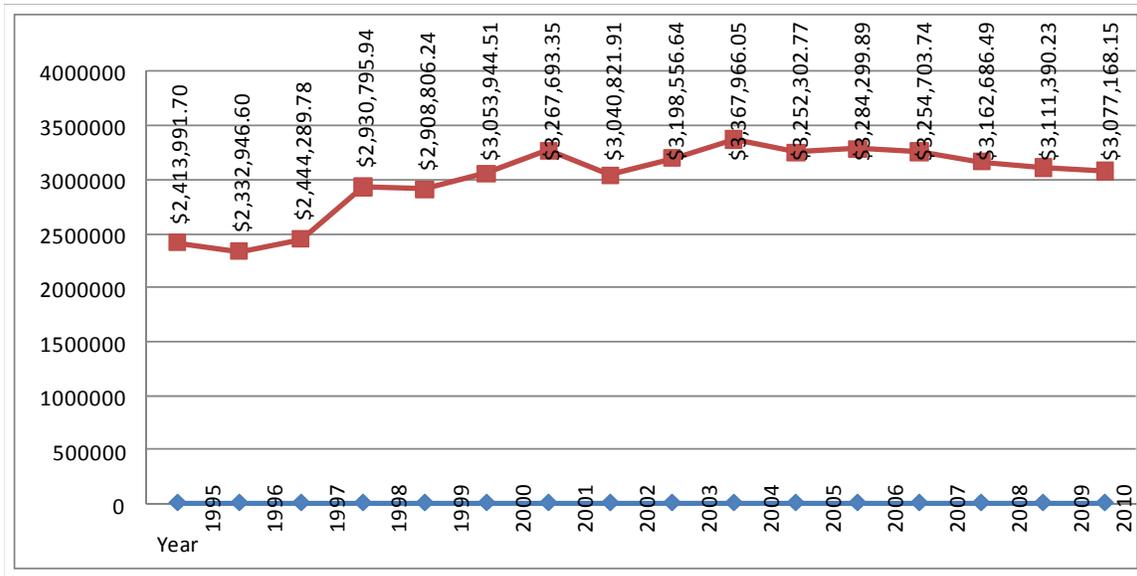
The Road Commission projected the 2010 MTF budget by decreasing the MTF funds received in 2009 by approximately 3%. Actual year end figures show a decrease of 1.1%. In fiscal year 2010, the Road Commission derived approximated 86% of its revenues from the Michigan Transportation Funds, 9% from State and Federal aid, approximately 3% of its revenues from local contributions and 2% of its revenues from other sources. In fiscal year 2011, these amounts will fluctuate with the approved road projects, depending on what and how much townships and other agencies can afford to participate and the proposed decrease in MTF funding and monies available from Federal and State Grants. For the first two months of 2011, the Road Commission realized a 4.69% increase in MTF funding. The Road Commission will have to revisit its plans for 2011 projects and maintenance due to a 42% increase the price of fuel along with continued increases in costs for construction and maintenance. Like other road commissions, the Kalkaska County Road Commission has been looking for measures to reduce spending and keep costs down.

During 2011, the Road Commission expects to receive Federal Aid in the approximate amount of \$950,000 for a Local Bridge/Critical Bridge project and \$580,000 in State and Federal monies to crush, shape, add materials, and pave 1.8 miles of Ingersoll Road.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2010

*Fiscal year 2010 saw fuel costs increase from the year 2009. Travel and fuel consumption has increased even though the cost of fuel had increased by more than 50%. The economic status of the United States as a whole has started to show signs of stability. Michigan continues to have one of the highest unemployment rates at 10.3% in the United States which historically means less spending by consumers.



MTF Fund History

Michigan's economic conditions will continue to play a major factor in future funding as most of the Road Commission's revenue is received from the state. Fuel costs for 2011 are currently on the rise which will further affect the consumption of fuel and in return, affect the MTF funding the Road Commission receives.

Continued concerns for the Road Commission in fiscal year 2010 was the sky-rocketing cost of healthcare, MERS pension liability, fuel, parts, materials and a projected decline in fuel tax collection. These factors forced the Road Commission to make hard decisions pertaining to reducing routine preventative road maintenance. The Road Commission is working diligently with the unions to reduce our healthcare costs. The Road Commission continues to monitor healthcare costs and hopes to see a greater savings in 2011 through negotiated terms of our collective bargaining agreements.

Michigan's economic condition will continue to play a major factor in future funding as a majority of the Road Commission's revenue is received from the state through the Michigan Transportation Fund (M.T.F.). The Road Commission will continue to work with the townships and other agencies for construction and project funding. In 2011, the Road Commission has a Critical Bridge Fund matching grant to replace the Aarwood Bridge over the Rapid River. The start and completion of this project was delayed in 2010 due to a lack of local matching funds. In 2011, federal, state and local funds will be used to rehabilitate 1.8 miles of Ingersoll Road.

KALKASKA COUNTY ROAD COMMISSION

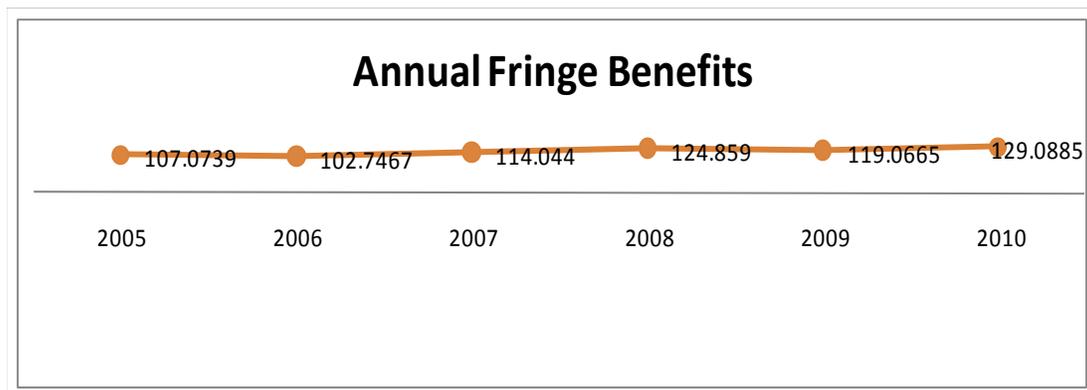
MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2010

Continued township participation in fiscal year 2010 provided financial assistance for road improvement/preservation projects. These projects included providing local funds for design engineering for Aarwood Bridge, upgrading/reconstructing gravel roads, and placing bituminous asphalt surface on upgraded gravel roads. The Road Commission is thankful to have the support and the assistance of the townships that entered into road improvement contracts. The Road Commission is continuing to seek grants to fund much needed improvements to its maintenance facilities, bridges/structures at several river crossings throughout the county, as well as grants to improve safety sensitive areas on roads.

The Road Commission's aging fleet still continues to be a concern as it requires higher maintenance and repair costs. The Road Commission has slowly been saving to replace its aging fleet. In 2011, the Road Commission will replace two pickups, add three snow patrol wing plows, purchase a Dura patcher and a 4,000 gallon emulsion storage tank with the monies set aside in the equipment escrow account.

Revenue conservation measures are being implemented by the Road Commission for fiscal year 2011. Measures to be considered are a continued reduction in the number of Road Commission employees and limiting of overtime. The Road Commission will be persistent in searching for reduced cost cutting measures allowing the Road Commission to stretch the reduced funding from the Michigan Transportation Fund. One method being implemented is the use of a Dura patcher to repair potholes. In addition, the Road Commission is implementing practices to maintain and preserve our infrastructure assets. Another method to be utilized will be the use of additional snow plow wings, thereby reducing time and equipment required to remove snow from the roads within the County.

Other cost containment goals needed to be addressed include the Road Commission's retirees' healthcare and prescription reimbursement plan, as may be permitted under the terms of their C.B.A. in place at the time of retirement. Savings from the above mentioned revenue conservation measures need to be applied to OPEB obligations, MERS Retirement liabilities, equipment replacement and road preservation. In addition, it is the continued goal of the Road Commission not to incur new long term debt during the State's economic crisis.



KALKASKA COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010**

Management continues to be concerned with insufficient funds available to adequately take care of the county road system. Drainage improvements, preventative maintenance, reconstruction, bituminous resurfacing and surfacing of gravel roads throughout the county are needed. In addition, repairs and improvements are needed to the Road Commission's deteriorating and aging buildings and structures. These concerns will need to be addressed in the near future.

Contacting the Road Commission's Financial Management

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Kalkaska County Road Commission, Administrative Office at: 1049 Island Lake Road, Kalkaska, Michigan 49646, Phone Number (231) 258-2242.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2010

EXHIBIT A

ASSETS

Current Assets	
Cash	\$ 383,689
Accounts Receivable	
Michigan Transportation Fund	450,918
Sundry Accounts	6,394
Inventories	
Road Materials	435,138
Equipment Parts and Materials	121,787
Prepaid Expenses	79,192
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	<u>16,378,442</u>
Total Assets	<u>17,855,560</u>

LIABILITIES

Current Liabilities	
Accounts Payable	104,461
Accrued Liabilities	18,899
Deferred Revenue	
Forest Road Funds	82,666
Noncurrent Liabilities	
OPEB Obligation Liability	1,506,950
Vested Employee Benefits Payable	<u>130,974</u>
Total Liabilities	<u>1,843,950</u>

NET ASSETS

Invested in Capital Assets	
Net of Related Debt	16,378,442
Restricted for County Roads	<u>(366,832)</u>
Total Net Assets	<u><u>\$16,011,610</u></u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010**

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,228,453
Local Road Routine and Preventive Maintenance	1,446,426
Net Equipment Expense	(12,966)
Net Administrative Expense	461,040
Infrastructure Depreciation	996,708
OPEB Expense	512,281
Compensated Absences	2,141
	<hr/>
Total Program Expenses	4,634,083
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	41,386
Charges for Services	13,827
Operating Grants and Contributions	
Michigan Transportation Funds	3,087,860
Investment Earnings	1,797
Capital Grants and Contributions	
Federal Grants	321,211
Contributions	107,913
	<hr/>
Total Program Revenue	3,573,994
	<hr/>
Change in Net Assets	(1,060,089)
	<hr/>
Net Assets	
Beginning of Year	17,071,699
	<hr/>
End of Year	\$ 16,011,610
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2010**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

General
Operating
Fund

ASSETS

Bank Deposits	\$ 383,689
Accounts Receivable	
Michigan Transportation Fund	450,918
Sundry Accounts	6,394
Inventories	
Road Materials	435,138
Equipment Parts and Materials	121,787
Prepaid Expense	79,192
Total Assets	<u>\$ 1,477,118</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 104,461
Accrued Liabilities	18,899
Deferred Revenue	82,666
Total Liabilities	<u>206,026</u>
Fund Equities	
Reserved for Inventory	556,925
Reserved for Prepaid Expense	79,192
Fund Balance	
Designated	86,447
Unreserved and Undesignated	548,528
Total Fund Equities	<u>1,271,092</u>
Total Liabilities and Fund Equities	<u>\$ 1,477,118</u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2010**

EXHIBIT D

Total Governmental Fund Balance \$ 1,271,092

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 16,378,442

Other long-term liabilities are not available to pay for current period expenditures and, therefore, are not reported in the funds. (1,637,924)

Net Assets of Governmental Activities \$ 16,011,610

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2010**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 41,386
Federal Aid	321,211
State Aid	3,087,860
Contributions From Local Units	107,913
Charges for Services	12,047
Interest and Rents	1,797
Other Revenue	<u>1,780</u>
Total Revenues	<u>3,573,994</u>
Expenditures	
Public Works	3,495,053
Capital Outlay	235,800
Debt Service	<u> </u>
Total Expenditures	<u>3,730,853</u>
Excess of Revenues Over (Under) Expenditures	<u>(156,859)</u>
Fund Balance--January 1, 2010	<u>1,427,951</u>
Fund Balance--December 31, 2010	<u><u>\$ 1,271,092</u></u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN GOVERNMENTAL
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Fund \$ (156,859)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (388,808)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and OPEB liability.) (514,422)

Change in Net Assets of Governmental Activities \$ (1,060,089)

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Law (MCL) 224.1, is governed by an elected 5-member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Road Commission, a discretely presented component unit of Kalkaska County, and include the Road Commission Operating Fund.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation--Government-Wide 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. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, restricted net assets or fund deficit.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

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. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Deposits 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 stated at fair value.

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. 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.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended (MCL 141.421), which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (manager) prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The budget is amended as necessary during the year and is approved by the Board.

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the amended budget:

Activity	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Equipment Expense-Net	\$ (105,000)	\$ (12,966)	\$ (92,034)
Net Capital Outlay	(72,000)	124,039	(196,039)

NOTE C--CASH AND INTEREST-BEARING DEPOSITS

MCL 129.91 authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The Road Commission has designated one bank for the deposit of Road Commission funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 379,939
Petty Cash and Cash on Hand	<u>3,750</u>
Total	<u>\$ 383,689</u>

The bank balance of the Road Commission's deposits is \$410,787, of which \$250,000 is covered by federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risks that change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction (e.g., broker/dealer), a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to the Road Commission's indirect investment in securities through the use of mutual funds or government investment pools.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE D--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 01/01/10	Additions	Deductions	Account Balances 12/31/10
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 95,964			\$ 95,964
Infrastructure Land Improvements	4,093,003			4,093,003
Subtotal	<u>4,188,967</u>	-	\$ -	<u>4,188,967</u>
Capital Assets Being Depreciated				
Buildings and Improvements	597,135			597,135
Road Equipment	3,776,718	229,979	17,560	3,989,137
Shop Equipment	42,215	4,463		46,678
Office Equipment	62,020	1,358		63,378
Infrastructure--Bridges	1,122,539	52,095		1,174,634
Infrastructure--Roads	19,718,829	431,766	652,616	19,497,979
Total	<u>25,319,456</u>	<u>719,661</u>	<u>670,176</u>	<u>25,368,941</u>
Less Accumulated Depreciation				
Land and Improvements	62,445	1,750		64,195
Buildings and Improvements	518,758	17,334		536,092
Road Equipment	3,646,214	88,867	17,560	3,717,521
Shop Equipment	33,864	1,648		35,512
Office Equipment	52,907	2,162		55,069
Infrastructure--Bridges	442,773	31,019		473,792
Infrastructure--Roads	7,984,212	965,689	652,616	8,297,285
Total	<u>12,741,173</u>	<u>1,108,469</u>	<u>670,176</u>	<u>13,179,466</u>
Net Capital Assets Being Depreciated	<u>12,578,283</u>	<u>719,661</u>	<u>1,108,469</u>	<u>12,189,475</u>
Total Net Capital Assets	<u>\$16,767,250</u>	<u>\$ 719,661</u>	<u>\$1,108,469</u>	<u>\$16,378,442</u>

Depreciation expense was charged to programs of the Road Commission as follows:

Net Equipment Expense	
Direct Equipment	\$ 111,761
Infrastructure Depreciation Expense	<u>996,708</u>
Total Depreciation Expense	<u>\$1,108,469</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE E--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/10</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/10</u>	<u>Due Within</u> <u>One Year</u>
Vested Employee Benefits				
Sick Leave Benefits	<u>\$128,833</u>	<u>2,141</u>	<u>\$130,974</u>	<u> </u>
Totals	<u><u>\$128,833</u></u>	<u><u>\$ 2,141</u></u>	<u><u>\$130,974</u></u>	<u><u>\$ -</u></u>

Sick Leave Benefit Policy

Road Commission sick leave benefit policies provide that each employee, after six months of service, earns eight hours of sick leave for each month of employment. When an employee dies or terminates his/her employment on a voluntary basis, the employee or the employee's estate, as the case may be, will receive pay for 100% of an employee's accumulated sick leave up to the maximum accumulation of 640 hours.

Vacation Benefit Policies

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

NOTE F--DEFERRED COMPENSATION PLAN

The Kalkaska County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the calendar year ended December 31, 2009.

MERS was established in 1946 under Public Act 135 of 1945 and granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Road Commission does not obligate employees to contribute any portion of their salary to the plan. The Road Commission is required to contribute at an actuarially determined rate which was 33.83% of the annual payroll for the union, and 24.97% for administration based on the 2007 actuarial valuation beginning on January 1, 2009.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

During the fiscal year ended December 31, 2009, the Road Commission's contributions totaling \$322,738 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2007. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 4% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 301,626	100%	\$0
2008	280,440	100%	0
2009	322,738	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/07	\$ 4,947,321	\$ 8,698,486	\$ 3,751,165	57%	\$ 989,324	379%
12/31/08	4,828,169	8,923,505	4,095,336	54%	1,035,260	396%
12/31/09	4,688,322	8,573,071	3,884,749	55%	1,023,422	380%

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE H--POST-EMPLOYMENT HEALTHCARE BENEFITS

Plan Description

The Road Commission Retiree Medical Plan (Plan) is a single-employer defined benefit healthcare plan administered by the Road Commission and can be amended at its discretion. The Plan provides post-employment healthcare benefits to employees who have retired from the Road Commission. There were several retirement windows open to employees during the last several years. In fiscal year 2006, there was a retirement window that gave employees the opportunity to retire at age 55 with 20 or more years of service. During calendar year 2007, there was a window from June 1 to July 31 that allowed union employees to retire after reaching a combined age and years of service of 75, regardless of age. All other employees may retire on or after attaining age 60 with 20 or more years of service, or those who retire under a valid disability claim regardless of age.

Funding Policy

The contribution requirements of Road Commission Plan members are established and may be amended by the Road Commission. At December 31, 2010, membership of the Plan consisted of the following:

Active Plan Members	28
Retirees and Beneficiaries Receiving Benefits	<u>18</u>
Total Plan Members	<u>46</u>

Active members are not obligated to make contributions to the Plan at this time. Currently, the Road Commission has not yet decided to make contributions to the Plan in excess of the benefits due in the current year. The current contributions for the Plan consist of the Road Commission paying the monthly health insurance premium for union and nonunion employees until death (or until the retiree is covered under a health insurance policy from another employer) and for a period of three years after retirement for spouses (when retiree is 62-65) on a pay-as-you-go financing. At December 31, 2010, the amount of the contribution was \$166,483.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

NOTE H--POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Road Commission's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Road Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation to the Plan:

Annual Required Contribution	\$ 678,764
Contributions Made	<u>(166,483)</u>
Increase/Decrease in Net OPEB Obligation	512,281
Net OPEB Obligation (Beginning of Year)	<u>994,669</u>
Net OPEB Obligation (End of Year)	<u><u>\$ 1,506,950</u></u>

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010:

<u>Calendar Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Amount of Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/08	\$ 678,764	\$ 194,499	29%	\$ 484,265
12/31/09	678,764	168,360	25%	994,669
12/31/10	678,764	166,483	25%	1,506,950

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NOTE H--POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Funded Status and Funding Progress

The funded status of the Plan as of the most recent alternative measurement method date is presented in the Schedule of Funding Progress as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percent of Covered Payroll</u>
12/31/08	\$0	\$5,449,968	\$ 5,449,968	0%	\$ 1,169,723	465.92%
12/31/09	0	5,449,968	5,449,968	0%	1,137,947	478.93%
12/31/10	0	5,449,968	5,449,968	0%	1,127,924	483.19%

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, expected future working life 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.

Actuarial Methods and Assumptions

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.

The December 31, 2008 valuation was based on the Alternate Method as provided under GASB Statement No. 45, with a discount rate of 4.8%. The actuarial assumptions included a post-retirement interest rate of 7%, salary increase of 2% and an annual healthcare cost trend rate based on the NIH National Health Expenditure Projects, 2007-2017. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2008 was thirty years.

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

NOTE I--RISK MANAGEMENT (Continued)

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement of the Pool provides that it will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2010, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE J--SUBSEQUENT EVENT

In March 2011, the Road Commission approved the purchase of a Dura-Patcher in the amount of \$52,594. This is to be paid from the equipment escrow account.

NOTE K--UPCOMING REPORTING CHANGE

In March 2009, the Government Accounting Standards Board (GASB) issued statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: non-spendable, restricted, committed, assigned, and unassigned. The Road Commission will need to implement the standard beginning with fiscal year ending September 30, 2011.

**KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2010**

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 33,000	\$ 42,000	\$ 41,386	\$ (614)
Federal Aid				
ARRA Stimulus	349,000	349,000	313,211	(35,789)
USDA	38,000	8,000	8,000	-
Critical Bridge	890,000	-	-	-
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,069,410	1,069,410	1,747,913	678,503
Local Road	1,770,900	1,770,900	1,102,626	(668,274)
Snow Removal	232,000	221,000	216,629	(4,371)
State--Other	82,700	93,700	10,692	(83,008)
Contributions--Local Units				
Townships	600,000	200,000	107,913	(92,087)
Charges for Services				
Salvage Sales	3,500	9,500	9,726	226
Other Charges for Services	49,500	50,000	2,321	(47,679)
Interest and Rents				
Interest Earned	4,000	2,500	1,797	(703)
Other Revenue				
Contributions From Private Sources		2,000	1,780	(220)
Purchase Discounts	2,000	2,500		(2,500)
Total Operating Revenue	5,134,010	3,830,510	<u>\$ 3,573,994</u>	<u>\$ (256,516)</u>
Fund Balance--January 1, 2010	<u>1,181,542</u>	<u>1,332,111</u>		
Total Budget	<u>\$ 6,315,552</u>	<u>\$ 5,162,621</u>		

**KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2010**

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,500,000	\$ 425,000	\$ 357,070	\$ 67,930
Routine and Preventive Maintenance	1,229,000	1,254,000	1,228,453	25,547
Local Road	-	-	-	-
Preservation/Structural Improvements	540,000	140,000	126,791	13,209
Routine and Preventive Maintenance	1,325,000	1,475,000	1,446,426	28,574
Equipment Expense--Net	(70,000)	(105,000)		
Direct			\$ 607,769	
Indirect			417,079	
Operating			184,810	
Less: Equipment Rentals			<u>(1,222,624)</u>	(92,034)
Administrative Expense--Net	385,000	472,000		
Administrative Expense			463,596	
Less: Purchase Discounts			<u>(2,556)</u>	10,960
Capital Outlay--Net	(107,000)	(72,000)		
Capital Outlay			235,800	
Less: Depreciation Credits			(111,761)	
Equipment Retirements			<u>-</u>	(196,039)
Contingency	<u>318,380</u>	<u>178,000</u>		<u>178,000</u>
Total Expenditures	5,120,380	3,767,000	<u>\$ 3,730,853</u>	<u>\$ 36,147</u>
Fund Balance--December 31, 2010	<u>1,195,172</u>	<u>1,395,621</u>		
Total Budget	<u>\$ 6,315,552</u>	<u>\$ 5,162,621</u>		

**KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2010**

EXHIBIT I

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 2,084,518	\$1,425,113	\$ 64,363	\$3,573,994
Total Expenditures	<u>1,812,359</u>	<u>1,795,035</u>	<u>123,459</u>	<u>3,730,853</u>
Excess of Revenues Over (Under) Expenditures	272,159	(369,922)	(59,096)	(156,859)
Other Financing Sources (Uses) Optional Transfers	<u>(219,383)</u>	<u>219,383</u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	<u>(219,383)</u>	<u>219,383</u>	<u> </u>	<u> </u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	<u>52,776</u>	<u>(150,539)</u>	<u>(59,096)</u>	<u>(156,859)</u>
Fund Balance--January 1, 2010	<u>352,497</u>	<u>150,539</u>	<u>924,915</u>	<u>1,427,951</u>
Fund Balance--December 31, 2010	<u><u>\$ 405,273</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 865,819</u></u>	<u><u>\$1,271,092</u></u>

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended December 31, 2010

EXHIBIT J

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits				
Permits			\$ 41,386	\$ 41,386
Federal Aid				
ARRA Stimulus	\$ 313,211			313,211
USDA			8,000	8,000
State Aid				
Michigan Transportation Fund				
Engineering	5,700	\$ 4,300		10,000
Primary Road	1,747,913			1,747,913
Local Road		1,102,626		1,102,626
Snow Removal	-	216,629		216,629
State--Other	10,692	-		10,692
Contributions--Local Units				
Townships	6,553	101,360		107,913
Charges for Services				
Salvage Sales			9,726	9,726
Other Charges for Services			2,321	2,321
Interest and Rents				
Interest Earned	449	198	1,150	1,797
Other Revenue				
Reimbursements			1,780	1,780
Total Operating Revenue	<u>\$ 2,084,518</u>	<u>\$ 1,425,113</u>	<u>\$ 64,363</u>	<u>\$ 3,573,994</u>

**KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2010**

EXHIBIT K

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation/Structural Improvements	\$ 357,070			\$ 357,070
Routine and Preventive Maintenance	1,228,453			1,228,453
Local Road				
Preservation/Structural Improvements		-		-
Routine and Preventive Maintenance		\$ 126,791		126,791
		1,446,426		1,446,426
Equipment Expense--Net (Per Exhibit H)	(4,582)	(7,804)	\$ (580)	(12,966)
Administrative Expense--Net (Per Exhibit H)	231,418	229,622		461,040
Capital Outlay--Net (Per Exhibit H)			<u>124,039</u>	<u>124,039</u>
Total Expenditures	<u>\$1,812,359</u>	<u>\$1,795,035</u>	<u>\$ 123,459</u>	<u>\$ 3,730,853</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

April 27, 2011

Board of County Road Commissioners
Kalkaska County Road Commission
1049 Island Lake Road
Kalkaska, Michigan 49646

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, as of and for the year ended December 31, 2010, and have issued our report thereon dated April 27, 2011. 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 the Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

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

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

reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency in internal control over financial reporting listed as 2009-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 one instance of noncompliance required to be reported under Government Auditing Standards, and which is described in the accompanying Schedule of Findings and Responses listed as Finding 2005-9.

We also noted "Other Matters" that we reported to the management of the Road Commission in the accompanying Schedule of Findings and Responses listed as Finding 2007-3.

The Road Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Road Commission's responses and accordingly, we express no opinion on them.

This report is intended solely for the information of the Kalkaska County Board of Road Commissioners, management and others within the Road Commission, Federal and State awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

April 27, 2011

Board of County Road Commissioners
Kalkaska County Road Commission
1049 Island Lake Road
Kalkaska, Michigan 49646

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, Michigan, as of and for the year ended December 31, 2010, and have issued our report thereon dated April 27, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated December 23, 2009, 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.

As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 28, 2011.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending December 31, 2010. We noted no transactions entered into by the Road Commission 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.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of depreciation is based on the straight-line method. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 27, 2011.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Road Commission’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Road Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Kalkaska Board of County Road Commissioners and management of the Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this information is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2010

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 could adversely affect the 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 Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. Listed below are significant deficiencies and other matters in the internal control which we have reported to the management of the Road Commission.

The Road Commission is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material and reportable weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

SIGNIFICANT DEFICIENCY

Preparation of Financial Statements in Accordance with GAAP

Finding 2009-1

Condition: As many small and medium-sized governmental entities do, the Road Commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered to be a part of the Road Commission's internal controls.

Cause: This condition was caused by the Road Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Road Commission personnel to prepare them internally.

Effect: The Road Commission lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2010

SIGNIFICANT DEFICIENCY (Continued)

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

Recommendation: We recommend that the Road Commission Board evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interests of the Road Commission to outsource this duty to its external auditors. If the Road Commission continues to rely on its external auditors to prepare the financial statements, we recommend that the Board designate a responsible Road Commission official to carefully review the draft financial statements including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management's Response--Corrective Action Plan: Contact person is James Woodhams, Kalkaska County Road Commission, Island Lake Road, Kalkaska, Michigan 49646. Telephone (231) 258-2242.

The Road Commission has chosen their independent auditor to prepare these financial statements and required footnote disclosures on their behalf.

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Our examination revealed the following instance of noncompliance with State statutes and regulations.

General Appropriation Act

Finding 2005-9

(Repeated with revision from the 2005, 2006, 2007, 2008, and 2009 audits.)

Condition: During the year ended December 31, 2010, expenditures were incurred in excess of amounts appropriated in the budget and for the following activities:

Activity	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Equipment Expense-Net	\$ (105,000)	\$ (12,966)	\$ (92,034)
Net Capital Outlay	(72,000)	124,039	(196,039)

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2010

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

Criteria: MCL 14.434 Section 14 states:

- (3) The chief administrative officer shall transmit the recommended budget to the legislative body according to an appropriate time schedule developed by the local unit. The schedule shall allow adequate time for review and adoption by the legislative body before commencement of the budget year. The recommended budget, when transmitted by the chief administrative officer, shall be accompanied by a suggested general appropriations act to implement the budget. The suggested general appropriations act shall fulfill the requirements of section 16.
- (5) The chief administrative officer shall furnish the legislative body information the legislative body requires for proper consideration of the recommended budget.

MCL 141.437 Section 17 (1) states: "Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit."

MCL 141.439 Section 19 (1) states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. Expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

Directive: We direct the Road Commission to comply with the above statutory budgeting requirements. The County Board of Road Commissioners should take appropriate action to ensure that expenditures do not exceed appropriations. The 2010 budget was adopted in accordance with PA 2 of 1968, as amended.

Management's Response--Corrective Action Plan: Contact person is James Woodhams, Kalkaska Co. Rd. Comm., Island Lake Road, Kalkaska, Michigan 49646. Telephone (231)258-2242.

Management staff is continually learning how to prepare and/or provide a budget so expenditures do not exceed appropriations.

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2010

OTHER MATTERS

Employee Evaluations

Finding 2007-3

Condition: Employees do not have annual evaluations.

Criteria: The Accounting Procedures Manual for Local Units of Government in Michigan states the following: "Personnel needs to be competent and trustworthy with clearly established lines of authority that correlate to statutory or charter requirements. Organizational charts should be developed that clearly communicate the lines of authority. Job descriptions should be maintained to ensure that employees are aware of the duties they are expected to perform and where those responsibilities end."

Recommendation: We recommend that the Road Commission perform at least annual evaluations for all staff.

Management's Response--Corrective Action Plan: Contact person is Louis Walter Jr., Chairman of the Board of Commissioners, Kalkaska County Road Commission, Island Lake Road, Kalkaska, Michigan 49646. Telephone (231) 258-2242.

The Personnel Committee will address with Manager.