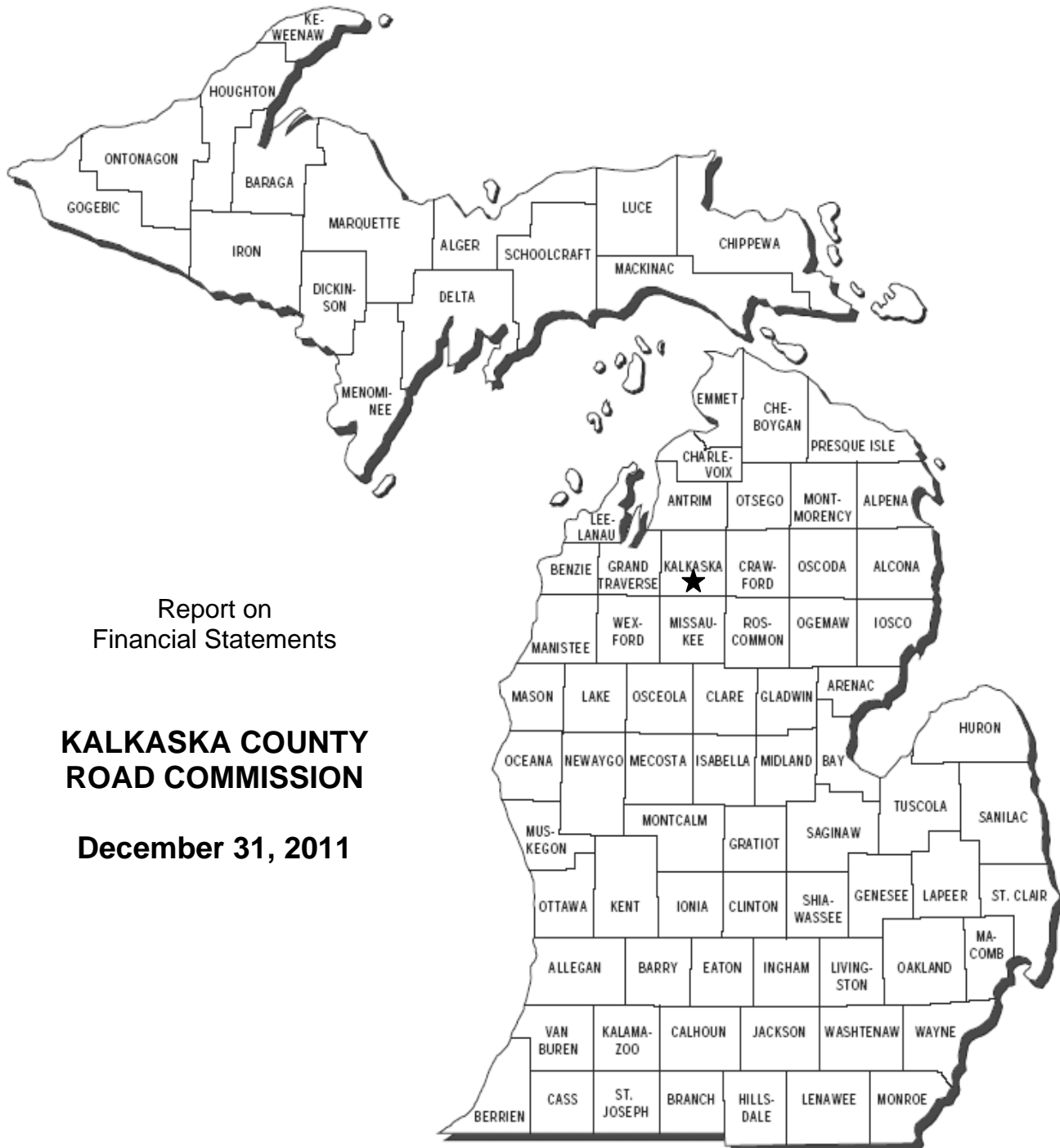


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

ANDY DILLON
State Treasurer



Report on
Financial Statements

KALKASKA COUNTY ROAD COMMISSION

December 31, 2011

KALKASKA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Louis Walter, Jr.
Chairperson

James Green
Vice Chairperson

David Gill
Member

Open
Member

Hubert Elliott
Member

James Woodhams
Manager

Rebecca Jerry
Finance Director

COUNTY POPULATION--2010
17,153

STATE EQUALIZED VALUATION--2011
\$862,075,487



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

April 30, 2012

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's governmental activities, a component unit of Kalkaska County, Michigan, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Kalkaska 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 respective financial position of the governmental activities, major fund and aggregate remaining fund information of Kalkaska County Road Commission, as of December 31, 2011, 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 30, 2012, on our consideration of the Kalkaska County 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 Kalkaska County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K are presented 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, 2011

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, 2011. 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, 2011

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 0.63% from \$16,011,610 to \$15,910,103 for the year ended December 31, 2011. 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, 2011

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

Net assets as of year ended December 31, 2011 follows:

	<u>2010</u>	<u>2011</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 1,477,118	\$ 1,486,446	\$ 9,328	0.63%
Capital Assets	<u>16,378,442</u>	<u>16,458,537</u>	<u>80,095</u>	<u>0.49%</u>
Total Assets	<u>17,855,560</u>	<u>17,944,983</u>	<u>89,423</u>	<u>0.50%</u>
Current and Other Liabilities	206,026	198,126	(7,900)	-3.83%
Long-Term Liabilities	<u>1,637,924</u>	<u>1,836,754</u>	<u>198,830</u>	<u>12.14%</u>
Total Liabilities	<u>1,843,950</u>	<u>2,034,880</u>	<u>190,930</u>	<u>10.35%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	16,378,442	16,458,537	80,095	0.49%
Restricted	<u>(366,832)</u>	<u>(548,434)</u>	<u>(181,602)</u>	<u>49.51%</u>
Total Net Assets	<u>\$ 16,011,610</u>	<u>\$ 15,910,103</u>	<u>\$ (101,507)</u>	<u>-0.63%</u>

The restricted net assets decreased by \$181,602 during 2011. The primary reason for the decrease was the continued increase in other post-employment benefit obligations 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 increased by \$80,095 for infrastructure assets. The primary reason for the increase was the increase in the amount of funding for projects which added infrastructure as compared with the previous year.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2011

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2011 follows:

	<u>2010</u>	<u>2011</u>	<u>Difference</u>	<u>Percent</u>
<u>Governmental Activities</u>				
Program Revenue				
Licenses and Permits	\$ 41,386	\$ 39,827	\$ (1,559)	-3.77%
Charges for Services	13,827	200,632	186,805	1351.02%
Operating Grants and Contributions				
Michigan Transportation Funds	3,087,860	3,387,027	299,167	9.69%
Investment Earnings	1,797	707	(1,090)	-60.66%
Capital Grants and Contributions				
Federal Grant	321,211	401,490	80,279	24.99%
Contributions From Local Units	107,913	50,880	(57,033)	-52.85%
Total Revenues	<u>3,573,994</u>	<u>4,080,563</u>	<u>506,569</u>	<u>14.17%</u>
Expenses				
Primary Routine and Preventive				
Road Maintenance	1,228,453	1,188,972	39,481	3.21%
Local Routine and Preventive				
Road Maintenance	1,446,426	1,144,566	301,860	20.87%
Net Equipment Expense	(12,966)	169,248	(182,214)	-1405.32%
Net Administrative Expense	461,040	472,092	(11,052)	-2.40%
Infrastructure Depreciation Expense	996,708	1,008,362	(11,654)	-1.17%
OPEB Expense	512,281	193,839	318,442	62.16%
Compensated Absences	2,141	4,991	(2,850)	-133.12%
Total Program Expenses	<u>4,634,083</u>	<u>4,182,070</u>	<u>452,013</u>	<u>9.75%</u>
Change in Net Assets	<u>(1,060,089)</u>	<u>(101,507)</u>	<u>958,582</u>	<u>-90.42%</u>
Ending Net Assets	<u>\$ 16,011,610</u>	<u>\$ 15,910,103</u>	<u>\$ (101,507)</u>	<u>-0.63%</u>

KALKASKA COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2011**

The Road Commission's Fund

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2011, the fund balance of the General Operating Fund increased \$17,228 compared to a decrease of \$156,859 in the fund balance for the year ended December 31, 2010. Total revenues were \$4,080,563, an increase of \$506,569 compared to last year. The change in revenues resulted primarily from a contribution from a private source and an increase in state grants. Total expenditures were \$4,063,335, an increase of \$332,482 as compared to the prior year. The change in expenditures is due primarily to an increase in funding to work on road projects compared to the prior year. Also, capital outlay expenditure decreased compared to the prior year.

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

	12/31/10 Operating Fund	12/31/11 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Licenses and Permits	\$ 41,386	\$ 39,827	\$ (1,559)	-3.77%
Federal Grants	321,211	401,490	80,279	24.99%
State Grants	3,087,860	3,387,027	299,167	9.69%
Contributions From Local Units	107,913	50,880	(57,033)	-52.85%
Charges for Services	12,047	16,057	4,010	33.29%
Interest and Rents	1,797	707	(1,090)	-60.66%
Other Revenue	1,780	184,575	182,795	10269.38%
Total Revenues	3,573,994	4,080,563	506,569	14.17%
Expenditures				
Public Works	3,495,053	3,842,685	(347,632)	-9.95%
Capital Outlay	235,800	220,650	15,150	6.42%
Total Expenditures	3,730,853	4,063,335	(332,482)	-8.91%
Excess of Revenues Over (Under)				
Expenditures	(156,859)	17,228	174,087	-110.98%
Fund Balance--Beginning of Year	1,427,951	1,271,092	(156,859)	-10.98%
Fund Balance--End of Year	\$ 1,271,092	\$ 1,288,320	\$ 17,228	1.36%

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2011

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 2011 was \$271,100 higher than the original budget. The amended budget increased the contribution from private sources. The actual revenue recognized during 2011 was \$1,310,937 less than the final amended budget primarily due to the Road Commission not receiving as much Federal critical bridge funding as in the budget projection.

The final expenditure budget for 2011 was \$425,100 higher 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 \$1,482,165.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2011, the Road Commission had \$16,458,537 invested in capital assets. This amount represents a net increase (including additions and deductions) of \$80,095 or 0.49% as follows:

	<u>2010</u>	<u>2011</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	606,300	1.53%
Equipment	4,099,193	4,310,678	5.16%
Infrastructure--Roads and Bridges	20,672,613	21,448,693	3.75%
Subtotal	<u>25,368,941</u>	<u>26,365,671</u>	<u>3.93%</u>
Total Capital Assets	<u>29,557,908</u>	<u>30,554,638</u>	<u>3.37%</u>
Total Accumulated Depreciation	<u>(13,179,466)</u>	<u>(14,096,101)</u>	<u>6.96%</u>
Total Net Capital Assets	<u>\$ 16,378,442</u>	<u>\$ 16,458,537</u>	<u>0.49%</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2011

Infrastructure Assets recorded during 2011 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:

Buildings and Improvements	\$ 9,165
Road Equipment	195,241
Shop Equipment	14,847
Office Equipment	1,397
Infrastructure--Roads	<u>998,442</u>
Total Additions	<u>\$ 1,219,092</u>

Debt

The Kalkaska County Road Commission did not enter into any installment purchase agreements during 2011.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the calendar year 2012 budget. One of the main factors continues to be the economy with rising costs of employee benefits, increased fuel and material costs. When the 2011 budget was prepared, it was uncertain the amount of township participation the Road Commission would receive. The Road Commission anticipated using available STP, FED-D, and State-D to Reconstruct 1.9 miles of Ingersoll Road

The Road Commission projected the 2011 MTF budget by reporting the approximate amount from 2010 as the Road Commission has not seen a decrease in MTF funding for the last two years. Actual year-end figures show an increase from 2009 to 2010 of .63% and an increase of 1.52% from 2010 to 2011. In fiscal year 2011, the Road Commission derived approximated 77% of its revenues from the Michigan Transportation Funds, 16% from State and Federal aid, approximately 1% of its revenues from local contributions and 6% of its revenues from other sources. In fiscal year 2012, these amounts will fluctuate with the approved road projects, depending on what and how much townships and other agencies can afford to participate in addition to the availability of monies from Federal and State Grants. For the first two months of 2012, the Road Commission realized a 3.11% increase in MTF funding. The Road Commission will have to revisit its plans for 2012 projects and maintenance due to an increase in 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.

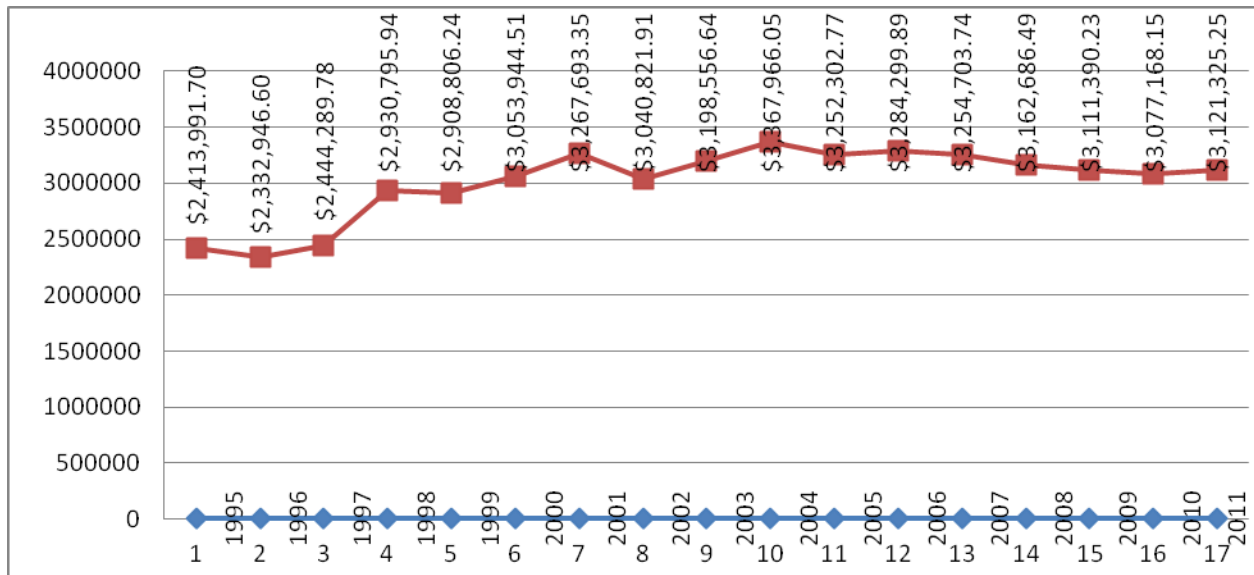
During 2012, the Road Commission expects to receive Local Bridge Funds in the approximate amount of \$950,000 for the removal and replacement of the Aarwood Road Bridge over the Rapid River and \$410,000 in State and Federal monies to reconstruct, add materials, and pave

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2011

one mile of Innis Road. The Road Commission was awarded a \$454,000 grant from the Conservation Resource Alliance to construct a timber structure over N. Sharon River on Mecum Road replacing culverts that restricted the flow of the river. Mecum Road Bridge project was started in November of 2011.

Fiscal year 2011 saw fuel costs increase from the year 2010. 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. While other parts of the country experience economic improvement, Kalkaska County remains an economically depressed area. 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 2012 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 2011 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 the work force by the lay off of eight employees during the summer months of 2011 and not replacing the three employees that left the employment of the Road Commission. The Road Commission also reduced routine preventative road maintenance. The Road Commission is working diligently with the unions to reduce our benefit costs. The Road Commission continues to monitor healthcare costs and hopes to see a greater savings in 2012 through negotiated terms of our collective bargaining agreements.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2011

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 (MTF). The Road Commission will continue to work with the townships and other agencies for construction and project funding. In 2012, the Road Commission has a Local Bridge Fund matching grant to replace the Aarwood Bridge over the Rapid River. The start and completion of this project was delayed in 2010 and 2011 due in part to a lack of local matching funds. In 2012, federal, state and local funds will be used to reconstruct one mile of Innis Road.

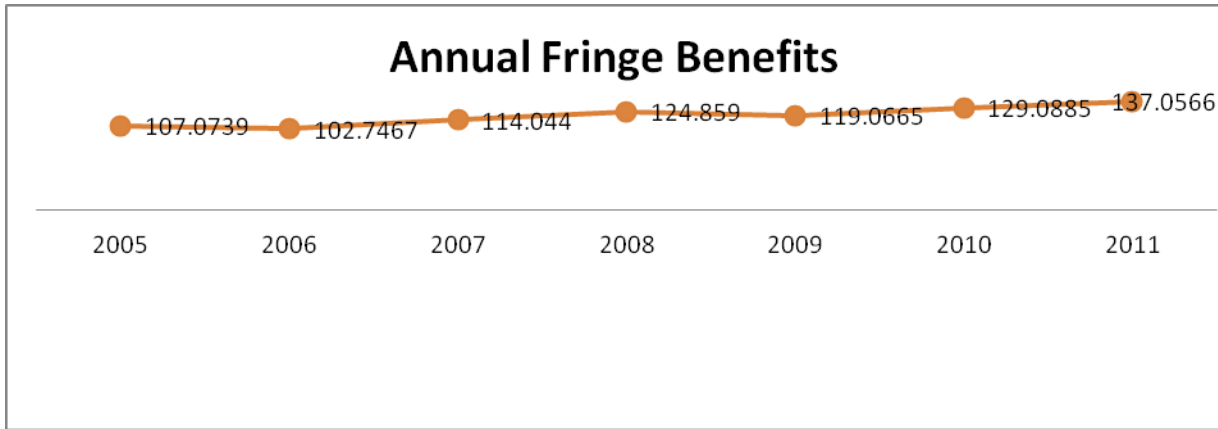
Continued township participation in fiscal year 2011 provided financial assistance for road improvement/preservation projects. These projects included providing local funds for design engineering for Aarwood Bridge, upgrading/reconstructing gravel roads, and placing bituminous asphalt surface on upgraded 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 2012, the Road Commission will replace one pickup, add two snow patrol wing plows, purchase a Mobark Brush Chipper, and two used plow trucks with the monies set aside in the equipment escrow account.

Revenue conservation measures are being implemented by the Road Commission for fiscal year 2012. Measures to be considered are a continued reduction in the number of full time 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 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 to be addressed include healthcare and the reduction of the MERS Retirement Liability. New hires after July 1, 2011, will be enrolled in a MERS hybrid plan, protecting the Road Commission from incurring any new unfunded liabilities. In addition, the Kalkaska County Road Commission worked with their retirees to find a supplement insurance plan which would protect the retirees while lowering costs of the healthcare for the Road Commission. The actual savings will not be realized until the end of 2012. The above mentioned revenue conservation measures need to be applied to OPEB obligations, 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, 2011



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.

Management is working with a new board that is focusing on preserving our existing infrastructure. The steps may seem to be small, but it is a step in the right direction.

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, 2011**

EXHIBIT A

ASSETS

Current Assets	
Cash	\$ 371,608
Accounts Receivable	
Michigan Transportation Fund	459,817
Sundry Accounts	3,188
County Road Agreements	78,742
Inventories	
Road Materials	362,675
Equipment Parts and Materials	140,641
Prepaid Expenses	69,775
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	<u>16,458,537</u>
Total Assets	<u>17,944,983</u>

LIABILITIES

Current Liabilities	
Accounts Payable	170,529
Accrued Liabilities	27,597
Noncurrent Liabilities	
Other Postemployment Benefits (OPEB)	1,700,789
Vested Employee Benefits Payable	<u>135,965</u>
Total Liabilities	<u>2,034,880</u>

NET ASSETS

Invested in Capital Assets	
Net of Related Debt	16,458,537
Restricted for County Roads	<u>(548,434)</u>
Total Net Assets	<u>\$ 15,910,103</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, 2011**

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,188,972
Local Road Routine and Preventive Maintenance	1,144,566
Net Equipment Expense	169,248
Net Administrative Expense	472,092
Infrastructure Depreciation	1,008,362
OPEB Expense	193,839
Compensated Absences	4,991
	<hr/>
Total Program Expenses	4,182,070
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	39,827
Charges for Services	200,632
Operating Grants and Contributions	
Michigan Transportation Funds	3,387,027
Investment Earnings	707
Capital Grants and Contributions	
Federal Grants	401,490
Contributions	50,880
	<hr/>
Total Program Revenue	4,080,563
	<hr/>
Change in Net Assets	(101,507)
	<hr/>
Net Assets	
Beginning of Year	16,011,610
	<hr/>
End of Year	\$ 15,910,103
	<hr/> <hr/>

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

**KALKASKA COUNTY ROAD COMMISSION
BALANCE SHEET -GOVERNMENTAL FUND
December 31, 2011**

EXHIBIT C

	<u>General Operating Fund</u>
<u>ASSETS</u>	
Bank Deposits	\$ 371,608
Accounts Receivable	
Michigan Transportation Fund	459,817
Sundry Accounts	3,189
County Road Agreements	78,742
Inventories	
Road Materials	362,675
Equipment Parts and Materials	140,641
Prepaid Expense	<u>69,775</u>
Total Assets	<u><u>\$ 1,486,446</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 170,529
Accrued Liabilities	<u>27,597</u>
Total Liabilities	<u>198,126</u>
Fund Equity	
Fund Balance	
Nonspendable	
Inventory	503,316
Prepays	69,775
Restricted for Road Operations	<u>715,229</u>
Total Fund Equities	<u>1,288,320</u>
Total Liabilities and Fund Equities	<u><u>\$ 1,486,446</u></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, 2011**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,288,320
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.	16,458,537
Other long-term liabilities are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,836,754)</u>
Net Assets of Governmental Activities	<u><u>\$ 15,910,103</u></u>

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
GOVERNMENTAL FUND
For the Year Ended December 31, 2011**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 39,827
Federal Grants	401,490
State Grants	3,387,027
Contributions From Local Units	50,880
Charges for Services	16,057
Interest and Rents	707
Other Revenue	<u>184,575</u>
Total Revenues	<u>4,080,563</u>
Expenditures	
Public Works	3,842,685
Capital Outlay	<u>220,650</u>
Total Expenditures	<u>4,063,335</u>
Excess of Revenues Over (Under) Expenditures	<u>17,228</u>
Fund Balance--January 1, 2011	<u>1,271,092</u>
Fund Balance--December 31, 2011	<u><u>\$ 1,288,320</u></u>

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

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Fund \$ 17,228

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. 80,095

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.) (198,830)

Change in Net Assets of Governmental Activities \$ (101,507)

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, 2011

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, 2011

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, 2011

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, 2011

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:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Equipment Expense-Net	\$ (25,000)	\$ 169,248	\$ (194,248)
Administrative Expense-Net	460,000	472,093	(12,093)
Net Capital Outlay	73,000	90,012	(17,012)

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, 2011

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)	\$ 364,358
Petty Cash and Cash on Hand	<u>7,250</u>
Total	<u>\$ 371,608</u>

The bank balance of the Road Commission's deposits is \$559,266, 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, 2011

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, 2011

NOTE D--CAPITAL ASSETS

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

	Account Balances 01/01/11	Additions	Deductions	Account Balances 12/31/11
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 95,964			\$ 95,964
Infrastructure Land Improvements	4,093,003			4,093,003
Subtotal	4,188,967	-	-	4,188,967
Capital Assets Being Depreciated				
Buildings and Improvements	597,135	\$ 9,165		606,300
Road Equipment	3,989,137	195,241		4,184,378
Shop Equipment	46,678	14,847		61,525
Office Equipment	63,378	1,397		64,775
Infrastructure--Bridges	1,174,634	222,516		1,397,150
Infrastructure--Roads	19,497,979	775,926	\$ 222,362	20,051,543
Total	25,368,941	1,219,092	222,362	26,365,671
Less Accumulated Depreciation				
Land and Improvements	64,195	1,403		65,598
Buildings and Improvements	536,092	13,948		550,040
Road Equipment	3,717,521	108,071		3,825,592
Shop Equipment	35,512	4,627		40,139
Office Equipment	55,069	2,589		57,658
Infrastructure--Bridges	473,792	32,408		506,200
Infrastructure--Roads	8,297,285	975,951	222,362	9,050,874
Total	13,179,466	1,138,997	222,362	14,096,101
Net Capital Assets Being Depreciated	12,189,475	1,219,092	1,138,997	12,269,570
Total Net Capital Assets	\$ 16,378,442	\$ 1,219,092	\$ 1,138,997	\$ 16,458,537

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

Net Equipment Expense	
Direct Equipment	\$ 130,638
Infrastructure Depreciation Expense	1,008,359
Total Depreciation Expense	<u>\$ 1,138,997</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

NOTE E--LONG-TERM DEBT

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

	<u>Balance</u> <u>01/01/11</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
Vested Employee Benefits				
Sick Leave Benefits	<u>\$ 130,974</u>	<u>\$ 4,991</u>	<u>\$ 135,965</u>	
Totals	<u><u>\$ 128,833</u></u>	<u><u>\$ 4,991</u></u>	<u><u>\$ 135,965</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.

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.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Kalkaska County 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, 2010.

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 35.21% of the annual payroll for the union, and 24.29% for administration based on the 2008 actuarial valuation beginning on January 1, 2010.

Annual Pension Cost

During the fiscal year ended December 31, 2010, the Road Commission's contributions totaling \$323,730 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2010. 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.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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>
2008	\$ 280,440	100%	\$0
2009	322,738	100%	0
2010	323,730	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>
12/31/08	\$ 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%
12/31/10	4,621,053	8,740,462	4,119,409	53%	992,354	415%

NOTE H--POST-EMPLOYMENT HEALTHCARE BENEFITS

Plan Description

In addition to the pension benefits described in Note G, the Kalkaska County Road Commission provides post-employment healthcare benefits to employees who have retired from the Road Commission. The Road Commission Retiree Medical Plan (Plan) is a single-employer defined benefit healthcare plan administered by the Road Commission which can be amended at its discretion. 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.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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

Funding Policy

The contribution requirements of Road Commission Plan members are established and may be amended by the Road Commission. At December 31, 2011, membership of the Plan consisted of the following:

Active Plan Members	27
Retirees and Beneficiaries Receiving Benefits	<u>18</u>
Total Plan Members	<u><u>45</u></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, 2011, the amount of the contribution was \$157,582.

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	\$ 317,530
Interest on Net OPEB Obligation	33,891
Contributions Made	<u>(157,582)</u>
Increase (Decrease) in Net OPEB Obligation	193,839
Net OPEB Obligation (Beginning of Year)	<u>1,506,950</u>
Net OPEB Obligation (End of Year)	<u><u>\$ 1,700,789</u></u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

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

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for December 31, 2011, compared to prior years, were as follows:

<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>
12/31/09	\$ 678,764	\$ 168,360	25%	\$ 994,669
12/31/10	678,764	166,483	25%	1,506,950
12/31/11	351,421	157,582	45%	1,700,789

Funded Status and Funding Progress

The funded status of the Plan as of the prior year alternative measurement valuation date December 31, 2008, 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>
12/31/09	\$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%

The funded status of the Plan as of the most recent alternative measurement valuation date December 31, 2011, 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>
12/31/11	\$0	\$ 3,300,192	\$ 3,300,192	0%	\$ 991,498	332.85%

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.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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

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, 2011, 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 3% and an annual healthcare cost trend rate based on the NIH National Health Expenditure Projects, 2009-2019. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2011, 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 (inter-local agreements) to form group self-insurance pools, and prescribe the conditions for the performance of these contracts.

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, 2011, 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.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

NOTE J--FUND BALANCE CLASSIFICATIONS

In accordance with Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Road Commission classifies its fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. For the Road Commission, the non-spendable balance reflects prepaid expenses of \$69,775 and the inventory on hand of \$503,316 for a total non-spendable balance of \$573,091.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The remaining Road Commission Funds are restricted as they can only be used in accordance with Public Act 51 of 1951.

The Road Commission has not adopted a Fund Balance policy as of December 31, 2011, setting a minimum balance.

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2011, the Federal grants received and expended by the Road Commission was \$401,490 for contracted projects and \$-0- for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

NOTE L--CHANGE IN ACCOUNTING PRINCIPLE

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 established 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 have been replaced with five new classifications: non-spendable, restricted, committed, assigned, and unassigned.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

NOTE M--UPCOMING REPORTING CHANGE

In June 2011, the Governmental Accounting Standards Board issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Road Commission will need to implement the standard beginning with fiscal year ending December 31, 2012.

**KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2011**

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 33,000	\$ 43,000	\$ 39,827	\$ (3,173)
Federal Grants				
Federal STP	330,000	330,000	255,950	(74,050)
Federal D	170,000	170,000	145,540	(24,460)
Critical Bridge	900,000	808,700	-	(808,700)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,709,000	1,720,000	1,777,551	57,551
Local Road	1,032,000	1,081,000	1,116,403	35,403
Snow Removal	232,000	232,000	217,372	(14,628)
State Forest Funds	82,700	166,000	165,328	(672)
State D Funds	56,000	85,000	100,373	15,373
Contributions--Local Units				
Townships	500,000	500,000	50,880	(449,120)
Charges for Services				
Salvage Sales	10,000	16,700	11,140	(5,560)
Other Charges for Services	11,200	5,000	4,917	(83)
Interest and Rents				
Interest Earned	2,000	1,500	707	(793)
Other Revenue				
Contributions From Private Sources	40,000	220,000	179,074	(40,926)
Purchase Discounts	2,500	2,600	5,501	2,901
Total Operating Revenue	5,120,400	5,391,500	<u>\$ 4,080,563</u>	<u>\$ (1,310,937)</u>
Fund Balance--January 1, 2011	<u>1,340,092</u>	<u>1,340,092</u>		
Total Budget	<u>\$ 6,460,492</u>	<u>\$ 6,731,592</u>		

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

**KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND
SCHEDULE OF EXPENDITURES-BUDGET TO ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2011**

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,520,000	\$ 1,686,000	\$ 759,412	\$ 926,588
Routine and Preventive Maintenance	1,342,900	1,280,000	1,188,972	91,028
Local Road				
Preservation/Structural Improvements	600,000	707,500	239,030	468,470
Routine and Preventive Maintenance	1,524,000	1,364,000	1,144,566	219,434
Equipment Expense--Net	(181,000)	(25,000)		
Direct			\$ 585,093	
Indirect			344,776	
Operating			248,400	
Less: Equipment Rentals			<u>(1,009,019)</u>	(194,250)
Administrative Expense--Net	450,000	460,000		
Administrative Expense			474,346	
Less: Purchase Discounts			<u>(2,253)</u>	(12,093)
Capital Outlay--Net	(135,500)	73,000		
Capital Outlay			220,650	
Less: Depreciation Credits			<u>(130,638)</u>	(17,012)
Total Expenditures	5,120,400	5,545,500	<u>\$ 4,063,335</u>	<u>\$ 1,482,165</u>
Fund Balance--December 31, 2011	<u>1,340,092</u>	<u>1,340,092</u>		
Total Budget	<u>\$ 6,460,492</u>	<u>\$ 6,885,592</u>		

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

**KALKASKA COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2011**

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,501,990	\$1,517,018	\$ 61,555	\$4,080,563
Total Expenditures	<u>2,296,976</u>	<u>1,671,825</u>	<u>94,534</u>	<u>4,063,335</u>
Excess of Revenues Over (Under) Expenditures	205,014	(154,807)	(32,979)	17,228
Other Financing Sources (Uses) Optional Transfers	<u>(154,807)</u>	<u>154,807</u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	<u>(154,807)</u>	<u>154,807</u>	<u> </u>	<u> </u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	<u>50,207</u>	<u>-</u>	<u>(32,979)</u>	<u>17,228</u>
Fund Balance--January 1, 2011	<u>405,273</u>	<u>-</u>	<u>865,819</u>	<u>1,271,092</u>
Fund Balance--December 31, 2011	<u>\$ 455,480</u>	<u>\$ -</u>	<u>\$ 832,840</u>	<u>\$1,288,320</u>

**KALKASKA COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF REVENUES
For the Year Ended December 31, 2011**

EXHIBIT J

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits				
Permits			\$ 39,827	\$ 39,827
Federal Grants				
Federal STP	\$ 255,950			255,950
Federal D	145,540			145,540
State Grants				
Michigan Transportation Fund				
Engineering	6,142	\$ 3,858		10,000
Primary Road	1,777,551			1,777,551
Local Road		1,116,403		1,116,403
Snow Removal		217,372		217,372
State Forest Funds	165,328			165,328
State D Funds	100,373			100,373
Contributions--Local Units				
Townships	50,880			50,880
Charges for Services				
Salvage Sales			11,140	11,140
Other Charges for Services			4,917	4,917
Interest and Rents				
Interest Earned	226		481	707
Other Revenue				
Contributions from Private Sources		179,385	(311)	179,074
Gain/Loss on Equipment Disposal			5,501	5,501
Total Operating Revenue	<u>\$ 2,501,990</u>	<u>\$ 1,517,018</u>	<u>\$ 61,555</u>	<u>\$ 4,080,563</u>

**KALKASKA COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2011**

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	\$ 759,412			\$ 759,412
Routine and Preventive Maintenance	1,188,972			1,188,972
Local Road				-
Preservation/Structural Improvements		\$ 239,030		239,030
Routine and Preventive Maintenance		1,144,566		1,144,566
Equipment Expense--Net (Per Exhibit H)	72,535	92,193	\$ 4,522	169,250
Administrative Expense--Net (Per Exhibit H)	276,057	196,036		472,093
Capital Outlay--Net (Per Exhibit H)			<u>90,012</u>	<u>90,012</u>
Total Expenditures	<u>\$2,296,976</u>	<u>\$1,671,825</u>	<u>\$ 94,534</u>	<u>\$ 4,063,335</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

April 30, 2012

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, 2011, and have issued our report thereon dated April 30, 2012. 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 Kalkaska County 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 Kalkaska County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kalkaska County 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 Kalkaska County 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 Kalkaska 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 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 2011-1.

We also noted "Other Matters" that we reported to the management of the Kalkaska County 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 Kalkaska County 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 Kalkaska County 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



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ANDY DILLON
STATE TREASURER

April 30, 2012

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 governmental activities, the major fund, and the aggregate remaining fund information of the financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, Michigan, for the year ended December 31, 2011, and have issued our report thereon dated April 30, 2012. 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 Kalkaska County 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 Kalkaska 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 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 26, 2012.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Kalkaska County Road Commission are described in Note A to the financial statements. During the fiscal year, the Kalkaska County Road Commission implemented Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions to enhance the usefulness of the fund balance information. The changes implemented by the Kalkaska County Road Commission are explained in the Notes J and L to the financial statements. We noted no transactions entered into by the Kalkaska County 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 30, 2012.

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 Kalkaska County 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 Kalkaska County 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 Kalkaska County 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, 2011

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.

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.

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2011

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

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

General Appropriation Act

Finding 2011-1

Condition: During the year ended December 31, 2011, expenditures were incurred in excess of amounts appropriated in the budget and for the following activities:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Equipment Expense-Net	\$ (25,000)	\$ 169,250	\$ (194,250)
Administrative Expense-Net	460,000	472,093	(12,093)
Net Capital Outlay	73,000	90,012	(17,012)

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.

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2011

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

- (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 2011 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.

OTHER MATTERS

Employee Evaluations

Finding 2007-3

Condition: Employees do not have consistently timely 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. We also recommend that management meet to discuss consistency among the evaluation criteria. In addition, we recommend that the Manager keep track of all employee evaluations and that they are being done on a timely basis.

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.