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June 12, 2012

Board of Commissioners
In Care of Calhoun County Road Commission Task Force
County of Calhoun, Michigan
315 West Green Street
Marshall, Michigan 49068

**RE: Road Commission Financial Analysis – Phase 1**

Public Acts 14 &15, enacted earlier this year, allows a county board of commissioners, to assume the powers, duties, and functions of the county road commission to the county board of commissioners. Among the tasks the county board of commissioners must accomplish is to perform a review of the road commission's operations. In accordance with your request, we have prepared a financial analysis of the Calhoun County Road Commission in connection with this project in order to facilitate the review of Road Commission operations.

In this first phase of this project, we have summarized our assessment of the previous 15 years of Calhoun County Road Commission's ("the Road Commission") operating results, looking at financial trends of the Road Commission itself, and then comparing this information to other selected Michigan county road commissions. The paragraphs that follow refer to metric information found on two Exhibits which are attached to this report.

After the historical analysis of the Road Commission as described above, we will conclude with our comments assessing the financial outlook for the future of the Road Commission.

A glossary of financial ratios and other financial terms is presented on the back page of this document to assist the reader in understanding the information presented.

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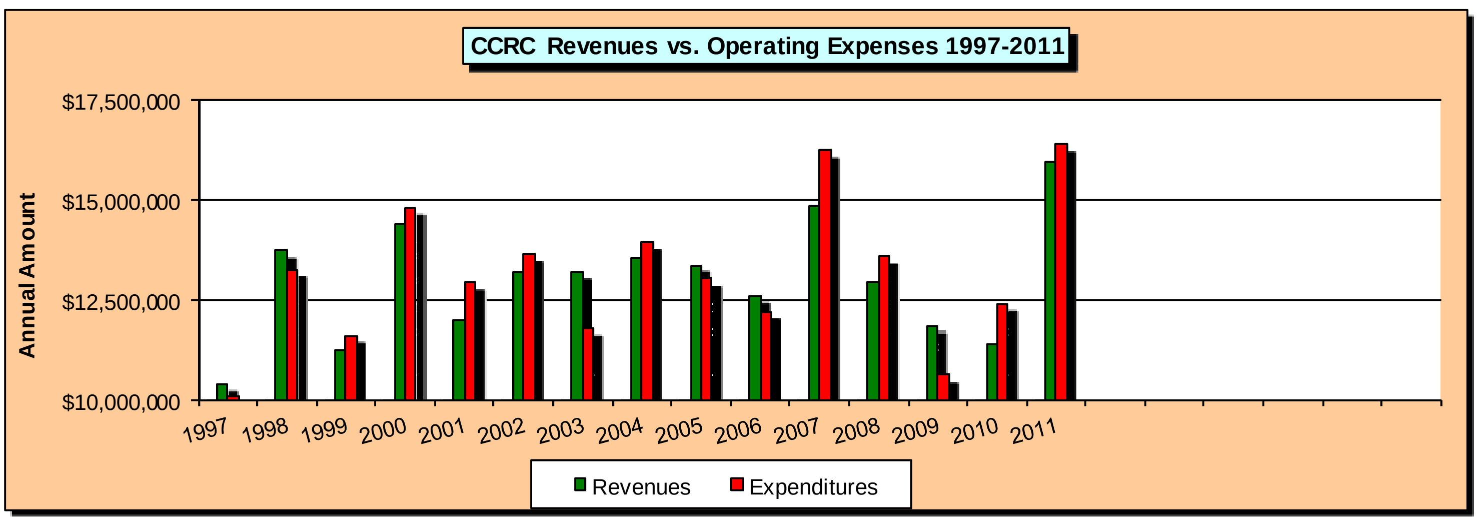
## Overview of Financial Assessment

Exhibit #1: This Exhibit provides a Financial Trend Analysis for fiscal years 1997 through 2011, with 2011 being the most recent fiscal year that has been audited. This analysis includes various financial statement and other trends over this period of time in order to see how the Road Commission's operations have changed, and provides key financial indicators over this timeframe.

Exhibit #2: This Exhibit reports the same information for the Road Commission for fiscal 2011, in comparison to the same metric data for seven other randomly selected road commissions. Though this comparison group does not reflect the results of all other road commissions in the state of Michigan, we believe that the seven selected provide a representative sampling for comparison to the Road Commission of Calhoun County.

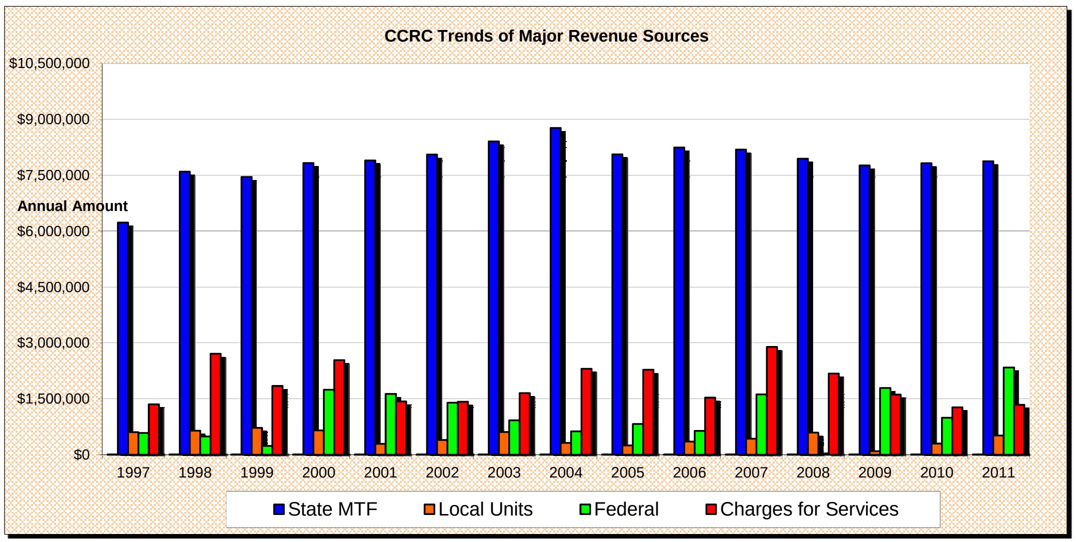
## Exhibit #1 Recap

In Exhibit #1, it is evident that the annual Michigan Transportation Fund (MTF) distributions have been reduced relative to overall revenues starting in 2003, which is generally the case with all road commissions over this period of time. The 2011 MTF distribution was approximately the same dollar amount as it was in the year 2000. Over this period of time, costs have increased significantly, including wages, fringe benefits, fuels, and other costs including materials that use petroleum based product. The following chart presents revenue versus operating expenditures over the past 15 years.



State MTF distributions fluctuate based on weight and gas taxes collected under formula, and are restricted for primary and local road expenditures. Local units revenue varies based on the amount of township projects undertaken under township cost sharing agreements. Federal source revenue includes force account projects as well as State-administered projects, and peaked in year 2009. The 2011 federal revenue includes $678,000 for an EPA Waste Water Treatment project that was passed through to other municipalities, and is not a typical federal revenue source. Charges for services revenue is generated primarily from the state contract with MDOT for maintaining state highways in Calhoun County and the reimbursable revenue generated equates with incurred costs on an annual basis. Other revenues have stayed relatively steady except for a higher amount in years 2011, which included $2,393,860 in contributions revenue from Enbridge for work provided by contractors for damage to Calhoun County roadways from oil spill cleanup road use. The related expenditure for $2,393,860 is included in the 2011 expenditures under Preservation- structural improvements. The EPA federal revenue and Enbridge contribution, and related expenditures recorded are not normal, and inflate revenues and expenditures in 2011 by approximately $3,072,000.

The following chart presents major revenue sources of the Road Commission from 1997 through 2011.



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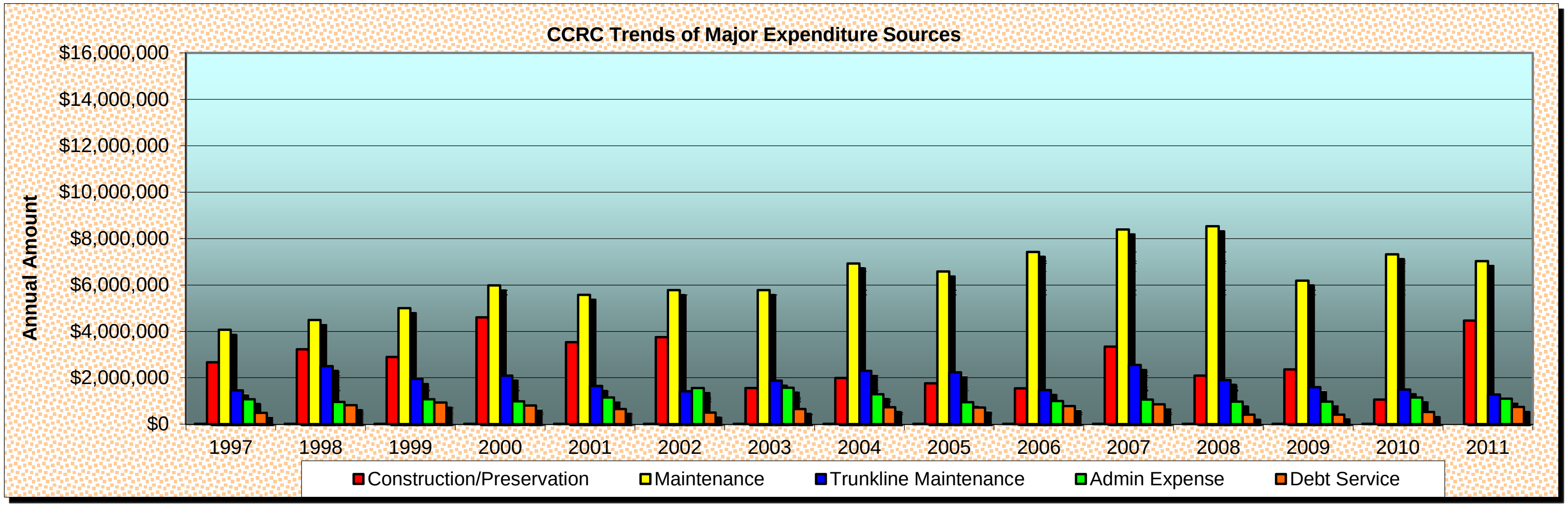
In reviewing expenditures, construction and preservation – structural improvements, peaked in the years 2000 through 2002. In 2011, this category reported $4,472,012, which included the Enbridge work noted on the previous page of $2,393,860. Without this special contribution, this category would have approximated $2,078,000, which would have put construction and preservation – structural improvements more in line with most years in this 15 year timeframe. Routine maintenance expenditures have remained consistent from 1997 through 2011. Trunk line maintenance costs have varied, and will have generally an equal amount of revenue included under "Charges for Services" each year. Administrative expense as a percent of total expenditures has generally been in the 6% to 9% for most of this 15 year timeframe. Debt service has ranged from 3% to 8% of annual operating expenditures from 1997 through 2011, and at December 31, stands at 4.5%.

The following chart depicts major expenditure sources from 1997 through 2011.



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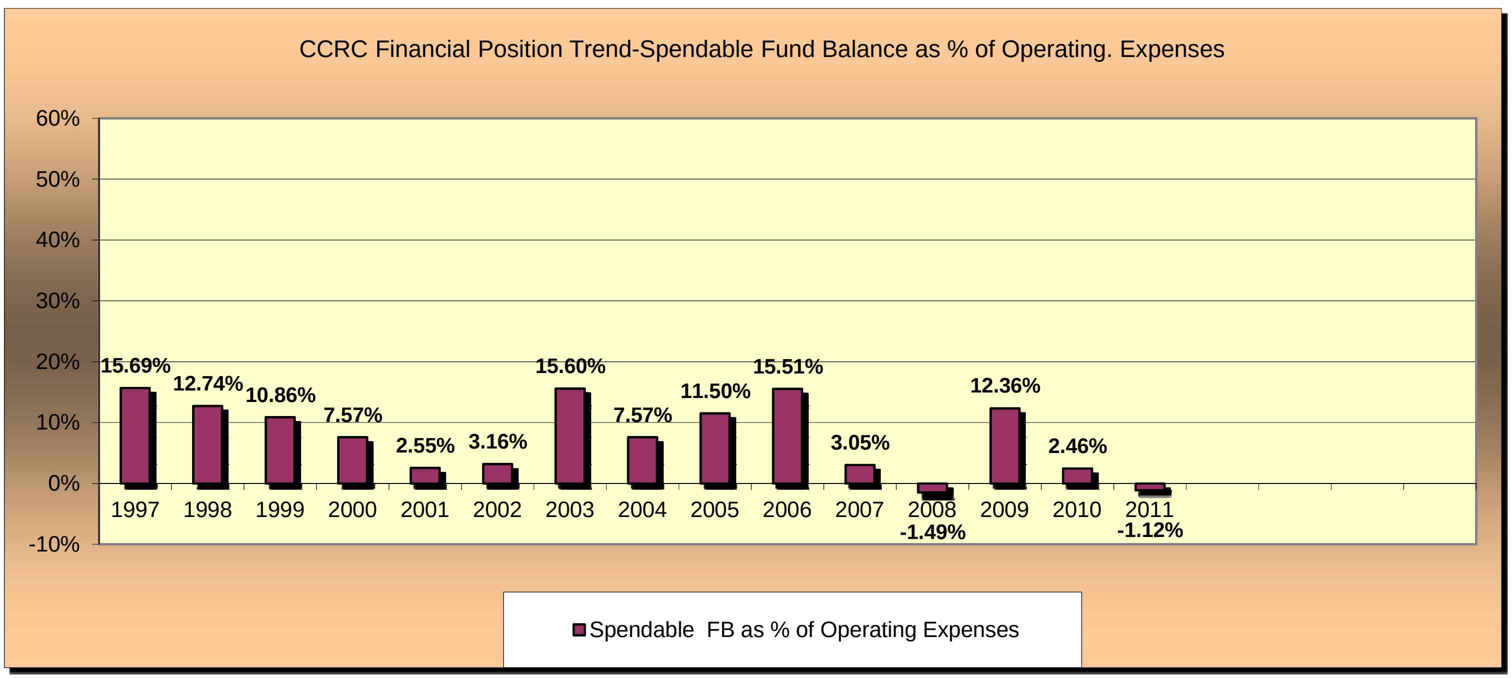
For long term installment indebtedness, which includes Transportation bonds as well as obligations under capital lease purchase agreements, the Road Commission is responsible for servicing the annual installments out of current operating funds, referred to as “Debt service”. At 12/31/11 total installment debt was $1,696,175, and the annual debt service for 2011 was $741,735 and represents 4.5% of total expenditures in fiscal 2011. Total installment debt has trended down for the Road Commission over the past 15 years.

Regarding financial position, a measure of an entity to maintain adequate reserves is determined by the relationship of spendable fund balance to total operating expenditures, and is expressed as a percentage. Spendable fund balance for this purpose is calculated as total fund balance, less the fund balance portion of the amount of inventories and prepaid assets included in the balance sheet. This percentage was 15.7% in 1997, and over this 15 year period of time has slipped to a negative (1.1%) of operating expenditures. This is similar to the trend of other road commissions over this 15 year time period as MTF distributions remained stagnant over this same timeframe. However, the level of fund balance of other road commissions has remained positive.

The following chart presents Spendable Fund Balance as a % of Operating Expenditures from 1997 through 2011.



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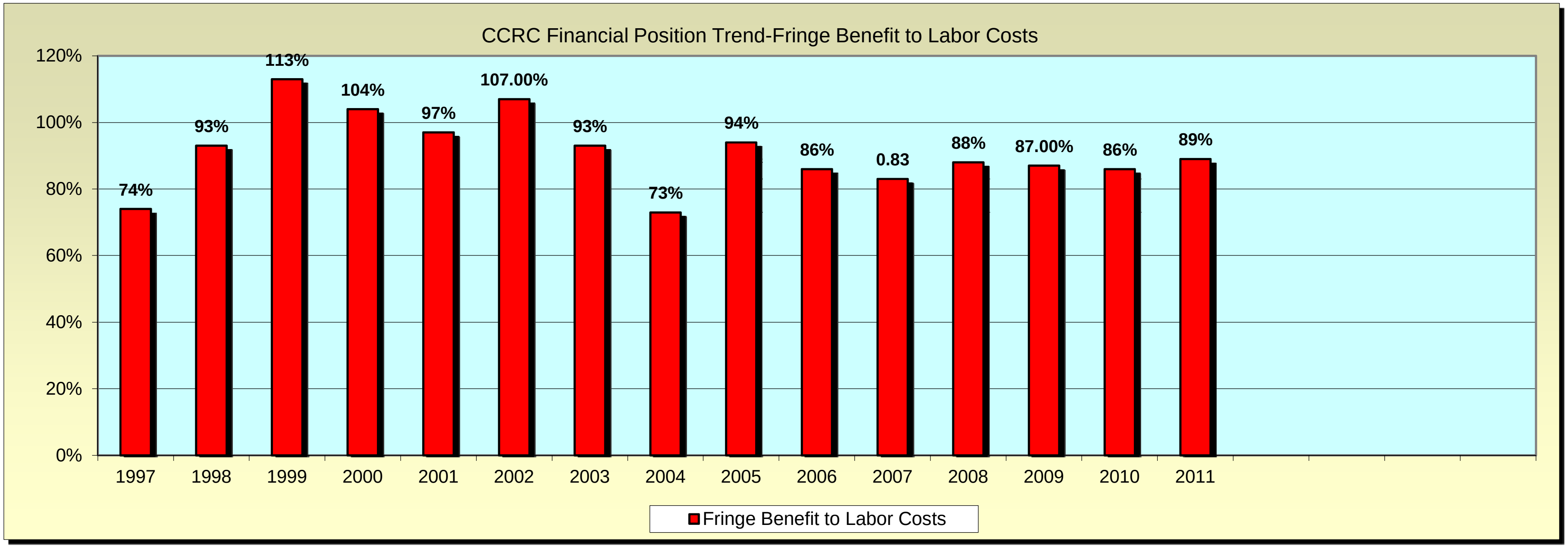
Fringe benefits to labor costs show how fringe benefits of project labor relate to labor applicable wages. This relationship is shown in the chart below. For each $1 of wages in 2011 an additional $.89 is expended on fringes. Fringes include holiday, vacation and sick time as well as health insurance, pension and other payroll related costs. These additional costs for fringe rates are expended to fund benefits for both active employees and servicing obligations for the retired employee workforce. A chart showing this relationship over the past 15 years is shown below.



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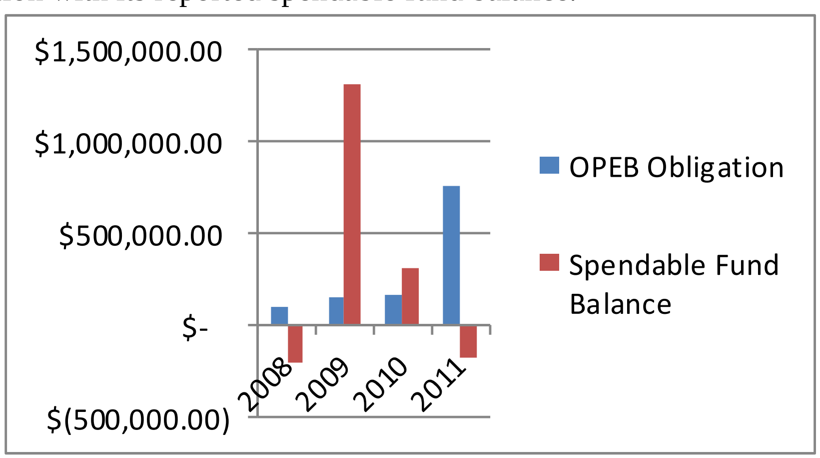
The postemployment benefit obligation (retiree health and life insurance obligations), commonly referred to as "OPEB" is being financed currently on a "pay as you go" basis through 2011. Accordingly, the Road Commission has an OPEB liability of approximately $758,870 at 12/31/11. In accordance with GASB Statement #45, this amount is not included as a liability of the road operating fund at 12/31/11, but rather, only as a liability in the government wide financial statements, along with other long term indebtedness, as well as infrastructure and other assets. However, this liability is growing each year since inception of this accounting reporting standard, and like other entities that are accumulating this OPEB liability, will have to be serviced by future operational budgets. The Actuary report for this Plan for 12/31/11 reflects the impact of lowering the eligibility requirements and adding surviving spouses. The ARC (annual required contribution) as reflected in the most recent actuarial valuation increased accordingly. The impact on the ARC was even more pronounced because older participants (closer to retirement) that otherwise wouldn't have been eligible (not enough years at retirement) now would be as they only need 6 years if age 60. This brings in a service cost for these employees in addition to the higher liability created. It should be noted that at 12/31/11 the funded ratio of this Plan is 0%, and the total actuarial accrued liability is $10,807,728.

This liability was not required to be calculated and recorded by governmental entities until 2007for larger governmental entities, and in the case of the Road Commission, not until 2008. In 2011, the OPEB obligation exceeded spendable fund balance by approximately $943,000. A chart showing the OPEB obligation in relation to spendable fund balance is shown following. The OPEB obligation at December 31, 2011 at $758,870 measures the excess of cumulative annual estimates of providing healthcare benefits (referred to as "annual required contributions") over cumulative payments out (representing retiree healthcare costs paid currently.) Since 2008, these actuarial computed expenses have exceeded the payments by $758,870, and for governmental entities that have this situation, the OPEB obligation at any point in time has to be looked at in conjunction with its reported spendable fund balance.




CCRC Financial Position Trend - OPEB

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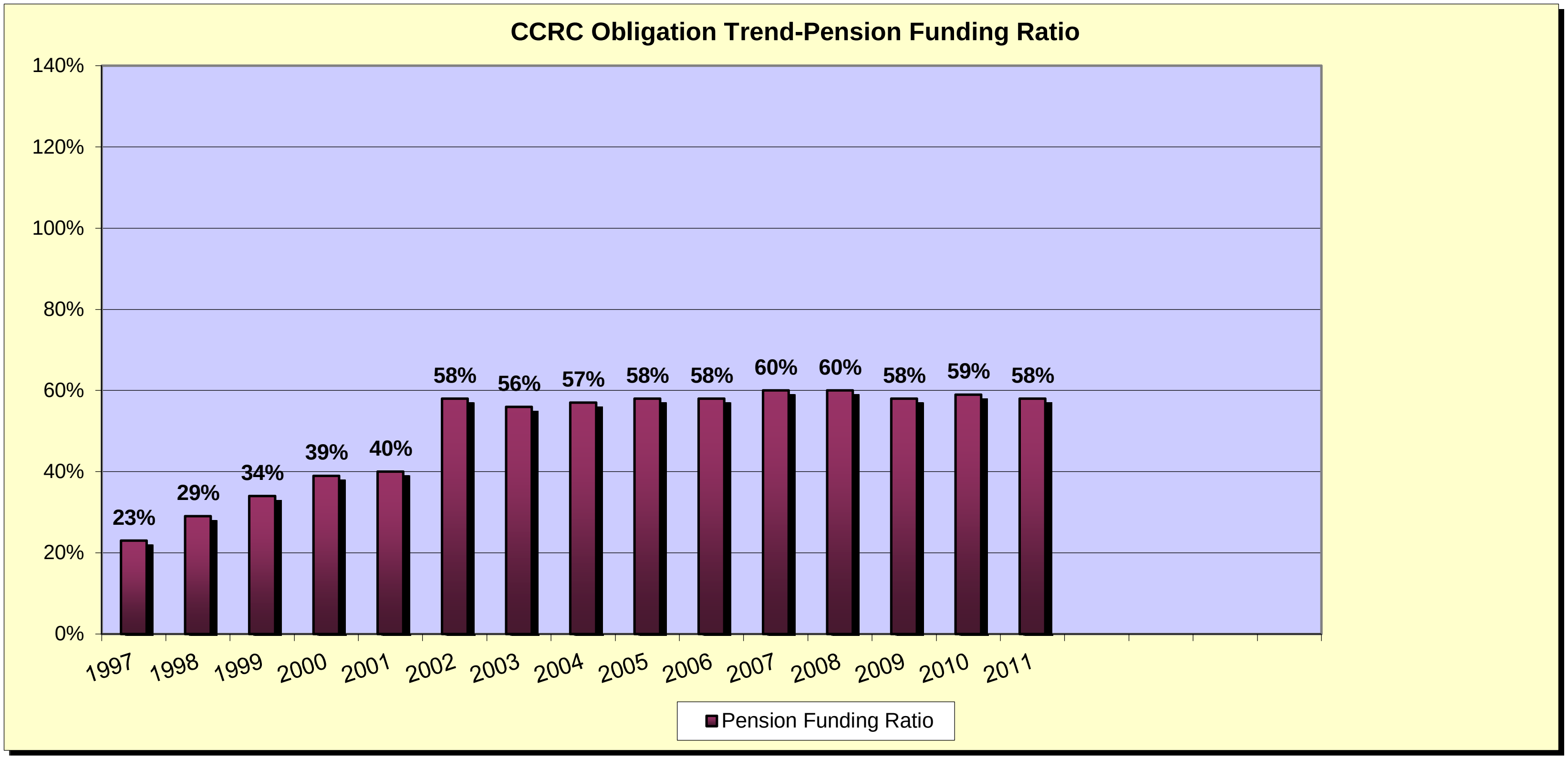
The Road Commission has been making 100% of the annual pension cost as determined by the actuary for the last several years, and the funded ratio of the Road Commission defined benefit plan is 58%, which is 14 percentage points lower than the 72% funding level of the selected other road commissions. The funded ratio of the Pension Plan – Road Commission component is shown on the following chart.



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## Exhibit #2 Recap

Overview

Exhibit #2 presents various financial information for the Road Commission at 12/31/11 in comparison with the same financial information for seven other randomly selected road commissions in Michigan for the most recent audit year. The Road Commission, as is the case with 4 of the 7 other road commissions in this comparative analysis, has contracted with MDOT for state maintenance, so the charges for services revenue and related trunk line maintenance expenditures for these four road commissions will be inherently higher because of this contract.

Construction/Preservation- Structural Improvement Expenses

These costs track how a road commission is spending its resources on long-term improvements, which generally will benefit future years that will require less in costs required to make structural repairs. For Calhoun County Road Commission, this percentage was 24% to 31% for years 1997 through 2002, but in the last 9 years has trended downward. In 2011, adjusting for the non-recurring one-time Enbridge revenue and expense for that road repair project of $2,393,860 described previously, Calhoun County Road Commission would have an adjusted percentage of Construction/Preservation- Structural Improvement Expenses in relation to total operating expenses of 15%. The average of the other road commissions in this analysis shows 31% in 2011.

Administrative costs

Administrative costs for the Road Commission are at 7% of total expenditures, compared to an average of 5% of the selected other road commissions. The amount for administrative costs are net of credits to the administrative cost pool, which are primarily credits from State Trunkline Maintenance administrative allocations.

Spendable fund balance

Under the Current Financial Position Trend section, spendable fund balance of the Road Commission at a negative (1.1%) compares to 25% for the other road commissions in the this analysis. It should be noted that for all road commissions in Michigan, cash resources are inherently strained because the November and December distributions are not received in cash until January and February of the ensuing year, and are carried as an account receivable at year end. This receivable amount for the Road Commission at 12/31/11 was $1,231,263. This receivable is noncash, and the amount is included in the spendable fund balance under present fund balance reporting standards. Even with this receivable, the Road Commission has a negative spendable fund balance.

Cash and investments

Cash and investments as a percentage of operating expenditures of the Road Commission at .4% is significantly lower than the average of the selected other road commissions of 16%. Furthermore, the Road Commission has accounts payable to vendors of approximately $1,245,000 at 12/31/11. This has posed severe cash flow problems for the Road Commission, which has generally existed over the last 15 years, but which has become significantly worse in recent years.

Debt service

The Road Commission has installment debt of $1,696,175 at 12/31/11 consisting of amounts due for 4 series of Michigan Transportation Fund Bonds, and two capital leases for road equipment. Future installments for this debt service through the year 2015 will be serviced by the Road Commission general operating fund. The total amount of the debt over the past 15 years has trended down. However, in 2011, the annual debt service in relation to total operating expenditures of 4.5% is higher than the composite average of the other road commissions in this analysis.

Postemployment benefit obligation

The OPEB liability of the Road Commission as a percent of operating expenditures is 5% at 12/31/11, which is significantly higher than the average of 2% of the selected other road commissions. This liability is growing faster because of the change in Plan provisions (lowering eligibility requirements and adding surviving spouses), combined with not in a financial position of being able to prefund this sizeable obligation.

Pension plan

The funded ratio of the Road Commission component of the defined benefit plan is 58%, which compares to the average of 72% of the selected other road commissions. Future actuarial reports will inevitably require higher employer contributions to the pension plan in order to keep the funded ratio of the Plan in line.

**Other Comments Regarding Financial Position**

Included in assets of the Road Commission is inventory of approximately $636,000 at 12/31/11, which includes road materials (gravel, stone, salt, culvert as well as equipment parts and supplies). This amount represents 3.9% of operating expenditures. By comparison, looking at two other counties, Washtenaw and Jackson County Road Commissions have 3.4% and 11.9%, respectively, of inventories in relation to total operating expenditures. The amount of inventory as an asset has an equal amount reserved, or considered nonspendable of the Road Commission's fund balance. The balance of inventories of the Road Commission is not excessive, and has remained steady over the past decade.

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**<u>Summary of Road Commission's Financial Position and Outlook for the Future</u>**

1. Administrative costs as a percentage of expenditures have decreased over the past decade. However, at 12/31/11 at 7% the Road Commission is at a level which is 2 percentage points higher than average of the other road commission's in this comparison analysis. Reasons for the higher relative costs of the Road Commission should be determined.

2. Cash flow has been deteriorating over the past 15 year period, but in the last 5 years the cash positing of the Road Commission has deteriorated significantly. Total cash at 12/31/11 is only $66,911, and is .4% of operating expenditures and only 3% of total assets. This has caused a severe cash flow problem for the Road Commission, as accounts payable to vendors was approximately $1,245,000 at 12/31/11. The Road Commission is unable to pay most of its bills on a timely basis.

3. Spendable fund balance of the Road Commission has been decreasing over the past decade, which is similar to the trend of other road commissions in Michigan. However, at December 31, 2011, the Road Commission's spendable fund balance percentage is a negative (1.1%), while the average of the other road commissions in this comparison is a positive 25%. Thus, the Road Commission has not been able to establish any positive fund balance. Financial analysts maintain that a governmental entity should strive maintain a minimum spendable fund balance of 10% to 15% of its annual operating expenditures.

4. Over the past decade, the Road Commission has made an admirable effort in reducing its long-term installment debt load level. However, at 12/31/11, the Road Commission's annual debt service as a percent of expenditures is 50% higher than the average for the other road commissions in this comparison. Debt service expenditures, of course, reduce the amount of resources that can be used for primary and local road projects.

5. The OPEB liability for retiree health and life insurance is considerably higher than the average of the other road commissions in this comparison. The OPEB obligation as a percentage of operating expenditures is 5%, which compares to a 2% average for the other road commissions in this comparison The Road Commission must find ways to either advance fund this OPEB liability by contributions to the OPEB Trust fund, or by changing the requirements for this benefit which will reduce costs in the future. Increasing contributions to the OPEB Trust fund obviously will reduce the funds available to perform preservation and maintenance on primary and local road projects. If the Road Commission continues its "pay as you go" funding plan, this situation along with the recent eligibility changes (which added a significant "annual required contribution" calculated amount,) will cause this liability to rise at an even higher rate in future years.

In summary, the financial condition of the Road Commission has deteriorated over the past 15 years. Certain key ratios, including spendable fund balance to annual operating expenditures, debt service expenditures to total expenditures, percentage of construction/structural improvement costs to total expenditures, and the increasing OPEB obligation to spendable fund balance have all reflected adverse trends over this period of time. The cash position of the Road Commission at December 31, 2011 is poor, and the funded percentage of the defined benefit pension plan has remained around 58% for the last decade. Facing the increased legacy requirements (primarily as a result of the OPEB obligation costs), and increased wages, fringes, fuels, and materials, coupled with stagnant MTF distributions, the ability of the Road Commission to preserve and maintain its primary and local road system will be challenged more than ever in future years. Additional State funding would mitigate this situation, but the possibility of increased MTF funding is unknown at this time.

Respectfully Submitted,

Rehmann Robson

David M. Fisher, CPA
Principal

Attachments: Exhibits 1 and 2, and Glossary

DMF:tkb

**Calhoun County Road Commission**
**Financial Trend Analysis**
**1997 through 2011**

**Exhibit 1**

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| **Operating trend** | | | | | | |
| **Revenue Sources** | | | | | | |
| Licenses and permits | $ 34,471 | $ - | $ 119,347 | $ 156,535 | $ 160,488 | $ 132,814 |
| Federal sources | 583,984 | 489,182 | 234,488 | 1,740,935 | 1,628,829 | 1,391,032 |
| State Sources | - | 681,274 | 748,380 | 506,823 | 489,585 | 213,596 |
| State MTF distributions | 6,933,962 | 7,596,966 | 7,451,954 | 7,828,827 | 7,898,601 | 8,048,838 |
| Contributions from local units | 600,594 | 645,013 | 722,014 | 650,478 | 289,394 | 394,185 |
| Charges for services | 1,351,317 | 2,707,736 | 1,840,976 | 2,535,428 | 1,428,578 | 1,417,250 |
| Interest and rents | 50,329 | 52,029 | 52,816 | 57,287 | 31,935 | 9,850 |
| Other | 90,584 | 57,770 | 105,458 | 35,601 | 60,577 | 61,793 |
| Other financing sources | 762,948 | 1,506,680 | - | 895,234 | - | 1,541,872 |
| Total revenues | 10,408,189 | 13,736,650 | 11,275,433 | 14,407,148 | 11,987,987 | 13,211,230 |
| **Expenditures** | | | | | | |
| Construction/Capacity | - | - | - | - | - | |
| Preservation - Structural Improvements | 2,666,112 | 3,234,172 | 2,902,329 | 4,606,772 | 3,536,411 | 3,750,554 |
| Maintenance | 4,066,573 | 4,491,179 | 4,999,897 | 5,981,291 | 5,577,209 | 5,776,035 |
| Trunkline maintenance and nonmaintenance | 1,459,378 | 2,500,411 | 1,951,009 | 2,100,915 | 1,645,126 | 1,424,647 |
| Administrative expense | 1,083,373 | 965,395 | 1,082,170 | 989,704 | 1,148,449 | 1,558,805 |
| Equipment expense | 51,183 | 415,741 | (252,694) | (524,143) | 484,188 | 315,606 |
| Capital outlay - net | (125,380) | 452,154 | (363,577) | 670,655 | (175,599) | (21,293) |
| Debt service | 494,419 | 818,225 | 931,462 | 810,110 | 659,385 | 508,547 |
| Other | 423,072 | 383,384 | 370,319 | 200,595 | 72,887 | 357,110 |
| Total operating expenses | 10,118,730 | 13,260,661 | 11,620,915 | 14,835,899 | 12,948,056 | 13,670,011 |
| Excess revenues over (under expenditures | 289,459 | 475,989 | (345,482) | (428,751) | (960,069) | (458,781) |
| Total spendable fund balance | 1,587,932 | 1,688,887 | 1,261,853 | 1,122,523 | 330,170 | 432,088 |
| Total cash and investments | 676,637 | 1,163,219 | 536,135 | 406,771 | 250,095 | 171,737 |
| Excess of expenditures over (under) final amended budget | 1,727,246 | 585,047 | (286,375) | 2,880,556 | 2,774,692 | 2,656,867 |
| Fringe benefit to labor costs | 0.74 | 0.93 | 1.13 | 1.04 | 0.97 | 1.07 |

**Exhibit 1**

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| **Current Financial Position trend** | | | | | | |
| Spendable Fund balance as % of operating expenditures | 15.7% | 12.7% | 10.9% | 7.6% | 2.5% | 3.2% |
| Cash and investments as % of operating expenditures | 6.7% | 8.8% | 4.6% | 2.7% | 1.9% | 1.3% |
| Administration costs as % of operating expenditures | 10.7% | 7.3% | 9.3% | 6.7% | 8.9% | 11.4% |
| Construction and Heavy Maint as % of operating expenditures | 26.3% | 24.4% | 25.0% | 31.1% | 27.3% | 27.4% |
| **Debt and other obligation trend** | | | | | | |
| Total installments debt | 2,649,793 | 3,579,071 | 2,517,676 | 2,755,552 | 2,216,723 | 3,384,257 |
| Total RC installment debt as % of spendable fund balance | 166.9% | 211.9% | 199.5% | 245.5% | 671.4% | 783.2% |
| Primary debt service | 494,419 | 818,225 | 931,462 | 810,110 | 659,385 | 508,547 |
| Annual debt service as % of operating expenditures | 4.9% | 6.2% | 8.0% | 5.5% | 5.1% | 3.7% |
| OPEB obligation at end of year | N/A | N/A | N/A | N/A | N/A | N/A |
| OPEB obligation as of spendable fund balance | N/A | N/A | N/A | N/A | N/A | N/A |
| Funded ratio of defined benefit plan | 23% | 29% | 34% | 39% | 40% | 58% |

## Calhoun County Road Commission
## Financial Trend Analysis (Concluded)
## 1997 through 2011

**Exhibit 1**

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **Operating trend** | | | | | | | | | |
| **Revenue Sources** | | | | | | | | | |
| Licenses and permits | $ 124,850 | $ 131,821 | $ 120,527 | $ 80,480 | $ 82,351 | $ 61,640 | $ 95,721 | $ 119,828 | $ 244,995 |
| Federal sources | 922,512 | 623,651 | 818,831 | 637,185 | 1,616,749 | 32,909 | 1,784,465 | 987,745 | 2,336,143 |
| State Sources | 390,802 | 717,026 | 494,553 | 958,665 | 1,005,144 | 1,492,323 | 342,876 | - | 127,842 |
| State MTF distributions | 8,406,911 | 8,769,175 | 8,059,698 | 8,242,227 | 8,186,110 | 7,945,912 | 7,760,469 | 7,818,624 | 7,873,265 |
| Contributions from local units | 610,066 | 316,200 | 246,231 | 348,434 | 422,945 | 587,326 | 95,474 | 297,919 | 513,457 |
| Charges for services | 1,653,055 | 2,305,705 | 2,277,239 | 1,526,892 | 2,887,867 | 2,176,010 | 1,613,311 | 1,271,299 | 1,340,792 |
| Interest and rents | 5,874 | 3,162 | 11,405 | 33,057 | 31,872 | 2,530 | 1,400 | - | - |
| Other | 239,800 | 674,657 | 704,244 | 793,768 | 647,414 | 360,427 | 183,415 | 322,689 | 2,809,838 |
| Other financing sources | 850,000 | - | 650,000 | - | - | 275,114 | - | 567,397 | 705,038 |
| Total revenues | 13,203,870 | 13,541,397 | 13,382,728 | 12,620,708 | 14,880,452 | 12,934,191 | 11,877,131 | 11,385,501 | 15,951,370 |
| **Expenditures** | | | | | | | | | |
| Construction/Capacity | - | 167,205 | 60,373 | - | 2,975 | 630,086 | 10,667 | - | - |
| Preservation - Structural Improvements | 1,566,811 | 1,829,077 | 1,711,010 | 1,549,716 | 3,345,168 | 1,469,227 | 2,358,658 | 1,064,000 | 4,472,012 |
| Maintenance | 5,783,630 | 6,926,336 | 6,584,915 | 7,424,025 | 8,395,563 | 8,528,230 | 6,193,317 | 7,327,519 | 7,031,284 |
| Trunkline maintenance and nonmaintenance | 1,874,637 | 2,303,864 | 2,236,357 | 1,474,694 | 2,553,616 | 1,906,023 | 1,600,455 | 1,504,077 | 1,277,165 |
| Administrative expense | 1,574,509 | 1,299,838 | 949,338 | 1,005,116 | 1,068,076 | 979,043 | 975,350 | 1,155,892 | 1,106,255 |
| Equipment expense | 478,934 | 367,399 | 88,316 | (140,655) | (545,391) | (660,951) | (912,362) | (284,306) | 104,558 |
| Capital outlay - net | (398,155) | 20,294 | (104,512) | (245,977) | (202,438) | 63,282 | (203,407) | 769,924 | 661,502 |
| Debt service | 655,191 | 734,367 | 721,515 | 785,334 | 855,020 | 409,492 | 418,601 | 523,954 | 741,735 |
| Other | 273,330 | 320,256 | 812,846 | 348,473 | 788,894 | 265,918 | 191,771 | 353,199 | 1,030,248 |
| Total operating expenses | 11,808,887 | 13,968,636 | 13,060,158 | 12,200,726 | 16,261,483 | 13,590,350 | 10,633,050 | 12,414,259 | 16,424,759 |
| Excess revenues over (under expenditures | 1,394,983 | (427,239) | 322,570 | 419,982 | (1,381,031) | (656,159) | 1,244,081 | (1,028,758) | (473,389) |
| Total spendable fund balance | 1,842,199 | 1,057,364 | 1,501,984 | 1,892,277 | 495,475 | (202,291) | 1,314,057 | 304,960 | (183,858) |
| Total cash and investments | 506,782 | 519,670 | 736,056 | 726,026 | 202,309 | 8,498 | 26,170 | 195,796 | 66,911 |
| Excess of expenditures over (under) final amended budget | 931,590 | 5,779,384 | (358,847) | (2,585,493) | 4,566,253 | 815,547 | 1,310,337 | 1,764,839 | 336,823 |
| Fringe benefit to labor costs | 0.93 | 0.73 | 0.94 | 0.86 | 0.83 | 0.88 | 0.87 | 0.86 | 0.89 |

**Exhibit 1**

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **Current Financial Position trend** | | | | | | | | | |
| Spendable Fund balance as % of operating expenditures | 15.6% | 7.6% | 11.5% | 15.5% | 3.0% | -1.5% | 12.4% | 2.5% | -1.1% |
| Cash and investments as % of operating expenditures | 4.3% | 3.7% | 5.6% | 6.0% | 1.2% | 0.1% | 0.2% | 1.6% | 0.4% |
| Administration costs as % of operating expenditures | 13.3% | 9.3% | 7.3% | 8.2% | 6.6% | 7.2% | 9.2% | 9.3% | 6.7% |
| Construction and Heavy Maint as % of operating expenditures | 13.3% | 14.3% | 13.6% | 12.7% | 20.6% | 15.4% | 22.3% | 8.6% | 27.2% |
| **Debt and other obligation trend** | | | | | | | | | |
| Total installments debt | 3,745,851 | 3,177,016 | 3,243,289 | 2,594,703 | 1,875,470 | 1,815,116 | 1,466,639 | 1,586,233 | 1,696,175 |
| Total RC installment debt as % of spendable fund balance | 203.3% | 300.5% | 215.9% | 137.1% | 378.5% | -897.3% | 111.6% | 520.1% | -922.5% |
| Primary debt service | 655,191 | 734,367 | 721,515 | 785,334 | 855,020 | 409,492 | 418,601 | 523,954 | 741,735 |
| Annual debt service as % of operating expenditures | 5.5% | 5.3% | 5.5% | 6.4% | 5.3% | 3.0% | 3.9% | 4.2% | 4.5% |
| OPEB obligation at end of year | N/A | N/A | N/A | N/A | N/A | 94,072 | 150,132 | 167,524 | 758,870 |
| OPEB obligation as of spendable fund balance | N/A | N/A | N/A | N/A | N/A | -47% | 11% | 55% | -413% |
| Funded ratio of defined benefit plan | 56% | 57% | 58% | 58% | 60% | 60% | 58% | 59% | 58% |

## Calhoun County Road Commission
## Financial Metric Comparisons *
## 2011

**Exhibit 2**

| | Calhoun County Road Commission | Selected Other RC Average | Ingham (2010) | Eaton 9/30 /11 | Jackson (2010) | Hillsdale | Cass 9/30/11 | Branch | Kent 9/30/11 |
|---|---|---|---|---|---|---|---|---|---|
| **Operating trend** | | | | | | | | | |
| **Revenue Sources** | | | | | | | | | |
| Licenses and permits | $ 244,995 | $ 69,963 | $ 131,639 | $ 62,100 | $ 63,152 | $ 36,545 | $ 20,709 | $ 19,505 | $ 156,088 |
| Federal sources | 2,336,143 | 2,208,369 | 4,185,660 | 1,800,508 | 1,572,978 | 843,889 | 1,053,681 | 484,142 | 5,517,726 |
| State Sources | 127,842 | 521,115 | 1,650,343 | 77,382 | 1,060,744 | 112,499 | 260,879 | 485,957 | - |
| State MTF distributions | 7,873,265 | 10,103,739 | 12,189,437 | 7,475,998 | 10,045,706 | 4,221,195 | 4,339,724 | 3,993,898 | 28,460,215 |
| Contributions from local units | 513,457 | 1,119,981 | 1,399,742 | 420,981 | 251,054 | 742,462 | 2,099,959 | 585,232 | 2,340,438 |
| Charges for services | 1,340,792 | 1,816,130 | - | - | 2,458,093 | 757,620 | 2,134 | 780,898 | 8,714,168 |
| Interest and rents | - | 57,338 | 5,844 | 334 | 44,662 | 7,936 | 14,428 | 3,131 | 325,029 |
| Other | 2,809,838 | 110,714 | 60,779 | 107,067 | 177,113 | 87,142 | 298,790 | 80,428 | (36,320) |
| Other financing sources | 705,038 | 136,806 | - | - | - | - | - | 957,642 | - |
| Total revenues | $ 15,951,370 | $ 16,144,155 | $ 19,623,444 | $ 9,944,370 | $ 15,673,502 | $ 6,809,288 | $ 8,090,304 | $ 7,390,833 | $ 45,477,344 |
| **Expenditures** | | | | | | | | | |
| Construction/Capacity | - | 347,143 | - | 1,169,844 | - | - | 242 | - | 1,259,917 |
| Preservation - Structural Improvements | 4,472,012 | 4,515,231 | 9,727,720 | 422,662 | 4,096,476 | 1,006,697 | 3,271,674 | 766,803 | 12,314,587 |
| Maintenance | 7,031,284 | 7,877,249 | 7,285,859 | 4,943,853 | 8,429,148 | 4,768,109 | 3,608,782 | 4,942,857 | 21,162,134 |
| Trunkline maintenance and nonmaintenance | 1,277,165 | 1,710,439 | - | - | 2,310,005 | 814,994 | - | 784,054 | 8,064,021 |
| Administrative expense | 1,106,255 1 | 730,095 1 | 1,226,332 1 | 919,143 1 | 727,163 1 | 493,463 1 | 564,759 1 | 293,070 1 | 886,733 |
| Equipment expense | 104,558 | 25,781 | 508,631 | 64,180 | (364,374) | (4,324) | (97,782) | 44,554 | 29,582 |
| Capital outlay - net | 661,502 | (306,414) | (370,185) | (211,061) | (517,946) | (344,258) | (434,630) | 222,443 | (489,259) |
| Debt service | 741,735 | 237,344 | - | 644,900 | 92,849 | 109,633 | 699,549 | 114,478 | - |
| Other | 1,030,248 | 478,068 | 656,466 | 537,517 | - | 64,371 | 743,315 | 8,156 | 1,336,649 |
| Total operating expenses | 16,424,759 | 15,614,936 | 19,034,823 | 8,491,038 | 14,773,321 | 6,908,685 | 8,355,909 | 7,176,415 | 44,564,364 |
| Excess revenues over (under) expenditures | (473,389) | 529,219 | - 588,621 | - 1,453,332 | - 900,181 | - (99,397) | - (265,605) | - 214,418 | 912,980 |
| Total spendable fund balance | (183,858) | 4,564,550 | 3,092,083 | 3,962,633 | 2,779,954 | 995,818 | 1,739,238 | 1,108,295 | 18,273,829 |

## Calhoun County Road Commission
## Financial Metric Comparisons *
## 2011

**Exhibit 2**

| | Calhoun County Road Commission | Selected Other RC Average | Ingham | Eaton 9/30 /11 | Jackson | Hillsdale | Cass 9/30/11 | Branch | Kent |
|---|---|---|---|---|---|---|---|---|---|
| Total cash and investments | $ 66,911 | $ 3,192,347 | $ 1,509,500 | $ 2,029,002 | $ 1,974,449 | $ 486,556 | $ 1,389,597 | $ 623,735 | $ 14,333,590 |
| Excess of expenditures over (under) final amended budget | 336,823 | (580,149) | (374,613) | 166,854 | (684,235) | (787,315) | (14,711) | 231,591 | (2,598,611) |
| Fringe benefit to labor costs | 0.89 | 1.02 | Unk | 1.32 | 1.00 | 0.91 | 0.79 | 1.41 | 0.68 |
| Administrative exp as % of total expenditures | 7% | 5% | 6% | 11% | 5% | 7% | 7% | 4% | 4% |
| **Current Financial Position trend** | | | | | | | | | |
| Spendable Fund balance as % of operating expenditures | -1.1% | 25% | 16.2% | 46.7% | 18.8% | 14.4% | 20.8% | 15.4% | 41.0% |
| Cash and investments as % of operating expenditures | 0.4% | 16% | 7.9% | 23.9% | 13.4% | 7.0% | 16.6% | 8.7% | 32.2% |
| **Debt and other obligation trend** | | | | | | | | | |
| Primary installment debt | 1,696,175 | 1,647,471 | - | 3,520,000 | 410,507 | 107,172 | 6,642,388 | 852,233 | - |
| Primary installment debt as % of operating expenditures | 10.3% | 20% | 0.0% | 41.5% | 2.8% | 1.6% | 79.5% | 11.9% | 0.0% |
| Annual primary debt service | 741,735 | 237,344 | - | 644,900 | 92,849 | 109,633 | 699,549 | 114,478 | - |
| Annual debt service as % of operating expenditures | 4.5% | 3% | 0.0% | 7.6% | 0.6% | 1.6% | 8.4% | 1.6% | 0.0% |
| OPEB obligation at end of year (asset) | 758,870 | 414,561 | 1,485,845 | (652,725) | 1,677,657 | - | 301,085 | 78,535 | 11,531 |
| OPEB obligation as % of operating expenditures | 5% | 2% | 8% | -8% | 11% | 0% | 4% | 1% | 0% |
| Funded ratio of defined benefit plan | 58% | 72% | 73% | N/A | 97% | 72% | N/A | N/A | 46% |

N/A Not applicable

* For calendar 2011, or 9/30/11 for those on fiscal year as indicated, or calendar 2010 as indicated in cases 2011 reports not issued as final

1 Amount is net of State Trunkline overhead (where applicable) and other credits

**Calhoun County Road Commission**
**Financial Analysis – Phase 1**
**Glossary of Position and Ratio Terminology**

- Total cash and investments – though not all of the Road Commission's assets, it is the most important, and the level is an indicator of an entity's ability to pay its bills.

- Total spendable fund balance – at a point in time , this measure includes cash and investments, and other near term assets such as receivables like MTF fund distributions received in January and February (for the months of November and December), less any accounts and accrued expenses payable which are normally paid within 60 days after year end. The spendable portion of this fund balance does not include inventories, which are considered nonspendable fund balance.

- Fringe benefit to labor cost – this is a measure of the how fringe benefits of line staff relate to the applicable wages. The higher this ratio, then the higher are an entity's fringe benefit costs, and the more costs that are spread to a project.

- Spendable fund balance as % of expenditures – the higher the percentage, then the greater the ability of the entity to absorb downturns in future revenues, unexpected expenditures, or both. Financial analysts generally recommend a minimum spendable fund balance of 10-15% of annual operating expenditures.

- Cash and investments as % of expenditures – the higher the percentage, then the greater the ability of the entity to have available cash to absorb downturns in future revenues, unexpected expenditures, or both.

- Administrative costs as % of expenditures – the higher the percentage, then the higher the entity's cost of administrative costs to its total costs, and the less resources the entity has to provide direct project costs.

- Construction and Heavy Maintenance as % of operating expenditures - a measure to track the amount of annual expenditures devoted to new roadway and roadway reconstruction, which are project costs spent for the future, as opposed to routine maintenance and other costs which serve to maintain the existing roadways.

- Total installment debt – amount of obligations that must be paid for out of future road commission revenues.

- Road Commission installment debt as % of operating expenditures – the higher this percentage, the higher is its installment debt to its overall activity.

- Annual debt service as % of operating expenditures – the higher this percentage, the more of its annual revenues have to go to pay debt service.

- OPEB obligation at year end - This is a new Governmental Accounting Standards Board requirement starting in 2007, and measures the shortfall of an entity not paying currently for its annual health benefit to retirees (annual required contribution as computed by actuaries). The higher the balance, the more the entity will have to come up with from future revenue sources to pay this liability. This is not recorded as a liability at the fund level in the current financial statement model.

- OPEB obligation as % of fund balance - the higher this percentage, the higher is its shortfall for this retiree benefit to its existing ability to fund the liability.

- Funded ratio of defined benefit pension plan – the higher the percentage, the more the entity has been able to pay for this actuarial computed benefit and earn investment gains for pensions over time.