

Eaton County  
Road Commission



Year Ended  
September 30,  
2014

Financial  
Statements

# EATON COUNTY ROAD COMMISSION

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**INDEPENDENT AUDITORS' REPORT**

March 12, 2015

Members of the Board of County  
Road Commissioners  
County of Eaton, Michigan  
Charlotte, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Eaton County Road Commission* (the "Road Commission"), a component unit of Eaton County, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Independent Auditors' Responsibility*

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Eaton County Road Commission as of September 30, 2014, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress and Employer Contributions for the Retired Employees' Healthcare Plan listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The operating fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The operating fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the operating fund schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2015, on our consideration of the Eaton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control over financial reporting and compliance.

*Rehmann Loborn LLC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# EATON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

As management of the Eaton County Road Commission (the "Road Commission"), we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended September 30, 2014.

### Financial Highlights

Net position, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Road Commission's net position chart, the Road Commission's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$78,441,901 at the end of the fiscal year. There was an increase of \$1,700,740 in net position during 2014.

The general operating fund had a decrease in fund balance for the year of \$479,364. Total fund balance is \$5,289,330.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net position and governmental fund balance sheet on a single page and the statement of activities and governmental fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide Statements

The *statement of net position* presents information on all of the Road Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of the Road Commission's overall fiscal position.

The *statement of activities* presents information showing how the Road Commission's net position changed during the most recent fiscal period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements include only the Road Commission itself (known as the primary government). The Road Commission has no legally separate component units for which the Road Commission is financially accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Eaton County which reports the Road Commission as a component unit.

# EATON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Fund Financial Statements

A fund is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (general fund).

### Governmental Funds

Governmental funds (general fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental fund and the government-wide statements.

The Road Commission maintains one governmental fund (the general fund). Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement No. 34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Road Commission does not maintain proprietary funds.

### Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Road Commission's own programs. The Road Commission has one fiduciary fund, the Employee Health Care Benefit Trust fund.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements are considered to be part of the basic financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, including this management discussion and analysis and trend information for the Retired Employees' Healthcare Plan.

# EATON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Condensed Statement of Net Position

	2014	2013
<b>Assets</b>		
Current and other assets	\$ 7,727,022	\$ 7,915,782
Capital assets, net	73,691,106	72,475,877
<b>Total assets</b>	<u>81,418,128</u>	<u>80,391,659</u>
<b>Deferred outflows of resources</b>	<u>50,000</u>	<u>62,500</u>
<b>Liabilities</b>		
Long-term liabilities outstanding	2,377,632	2,909,312
Other liabilities	648,595	803,686
<b>Total liabilities</b>	<u>3,026,227</u>	<u>3,712,998</u>
<b>Net position</b>		
Net investment in capital assets	71,686,106	69,880,877
Unrestricted	6,755,795	6,860,284
<b>Total net position</b>	<u>\$78,441,901</u>	<u>\$76,741,161</u>

### Condensed Statement of Activities

	2014	2013
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 824,115	\$ 973,885
Operating grants and contributions	8,365,784	7,695,040
Capital grants and contributions	3,618,836	1,943,833
General revenues:		
Interest revenue	9,043	728
<b>Total revenues</b>	<u>12,817,778</u>	<u>10,613,486</u>
<b>Expenses</b>		
Public works	11,074,217	10,247,890
Debt service - interest	42,821	74,297
<b>Total expenses</b>	<u>11,117,038</u>	<u>10,322,187</u>
<b>Increase in net position</b>	1,700,740	291,299
<b>Net position, beginning of year</b>	<u>76,741,161</u>	<u>76,449,862</u>
<b>Net position, end of year</b>	<u>\$78,441,901</u>	<u>\$76,741,161</u>



# EATON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Governmental Activities

Governmental activities increased the Road Commission's net position by \$1,700,740 during fiscal year 2014. This increase in net position is primarily due to results of operations at the fund level, and an increase in infrastructure investment made possible by increased federal and state grants.

### Fund Level Financial Statements

Beginning with the year ended September 30, 2011, the Road Commission reports its fund balance in compliance with Governmental Accounting and Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. Total fund balance at September 30, 2014 was \$5,289,330, compared to \$5,768,694 at September 30, 2013, and was comprised of two components. One component is nonspendable to indicate that it was not available for spending because it has already been committed to inventory purchases, which are included as fund assets. The nonspendable fund balance was \$344,822 as of September 30, 2014. The remaining fund balance of the Road Commission's fund balance, is considered unassigned. The unassigned fund balance at September 30, 2014 was \$4,944,508.

Overall, there was a decrease in total fund balance of \$479,364 for 2014 due to operating expenditures exceeding revenues. Specifically, winter maintenance expenditures increased over 70% from 2013 and although partially offset by a one-time general fund appropriation from the State of Michigan, had a significant impact to the results of operations. An increase in road projects funded primarily by federal and state grants, but which required local matching expenditures, also contributed to the net decrease in fund balance.

### General Operating Fund Budget Highlights

Amendments to the original budget were made during the year as more information on funding sources and related projects became known. The Road Commission amended its FY 2014 budget reflecting a increase in revenue sources, (primarily federal and state) by approximately \$729,000, and a decrease in expenditures of approximately \$366,000.

### Capital Assets and Debt Administration

#### Capital Assets

Capital assets in total, net of accumulated depreciation, increased from \$72,475,877 to \$73,691,106 due primarily to capital additions exceeding depreciation expense. Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets (including infrastructure) is allocated over their estimated useful lives and reported as depreciation expense. More detailed information of capital assets can be found in the notes to the financial statements.

#### Long-term Debt

Total bonded long-term debt was \$2,055,000 at September 30, 2014. Long-term debt at September 30, 2014 also included a compensated absences component amounting to \$322,632, which consists of accumulated vacation and sick leave (at 50%) which is earned but not yet paid. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds but not in the statement of activities. More detailed information of long-term debt can be found in the notes to the financial statements.

# EATON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Economic Factors and Road Fund Budgetary Highlights

For the fiscal year 2015, we anticipate only a slight increase in Michigan Transportation Fund (MTF) distributions based on trends over the past several years. Higher fuel and utility costs, raw materials and equipment, as well as increases in the cost of contractually fixed fringe benefits will continue to impact Road Commission resources.

Public Act 252 of 2014 provided for a one-time appropriation of \$144.5 million from the State of Michigan's General Fund for state and local road agencies, to be distributed pursuant to Act 51 of 1951. The Road Commission estimates approximately \$700,000 will be received from this appropriation in four quarterly installments during fiscal year 2015.

On May 5, 2015, voters in the State of Michigan will have the opportunity to vote on a Constitutional amendment which, if passed, will raise the Constitutional limitation on the state sales tax and trigger changes in the way fuel taxes are collected. The comprehensive package would provide an additional \$1.2 billion for Michigan roads state-wide. If approved, the Eaton County Road Commission could see an estimated increase in distributions from the Michigan Transportation Fund of approximately \$1.7 million during fiscal year 2016.

On November 4, 2014, Eaton County voters approved a twelve-year, 1.5 mill property tax levy to fund the rehabilitation and repair of the County's local road system. The revenue raised by this millage is estimated to be over \$3.7 million in 2015 and, in compliance with the ballot language, must be used solely to improve the condition of poor and fair local paved and gravel roads, and to provide county-wide dust control on gravel roads twice per year.

Several road and bridge projects funded primarily by federal and state grants are planned for 2015 and are expected to result in similar levels of related revenues and expenditures as in fiscal year 2014.

While the Road Commission's maintenance budget is sensitive to weather conditions, 2015 expenditures are expected to be similar to 2014.

### Requests for Information

This financial report is designed to provide a general overview of Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Eaton County Road Commission, 1112 Reynolds Road, Charlotte, MI 48813.

## BASIC FINANCIAL STATEMENTS

# EATON COUNTY ROAD COMMISSION

## Statement of Net Position and Governmental Fund Balance Sheet

September 30, 2014

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and interest bearing deposits	\$ 3,928,728	\$ -	\$ 3,928,728
Receivables:			
Motor vehicle highway funds	1,324,107	-	1,324,107
Township road agreements	212,778	-	212,778
Special assessments	99,267	-	99,267
Other	123,346	-	123,346
Inventories:			
Road materials	179,929	-	179,929
Equipment material and parts	164,893	-	164,893
Prepaid items	-	216,442	216,442
Net other postemployment benefits asset	-	1,477,532	1,477,532
Capital assets:			
Assets not being depreciated	-	24,415,666	24,415,666
Assets being depreciated, net	-	49,275,440	49,275,440
<b>Total assets</b>	<b>\$ 6,033,048</b>	<b>75,385,080</b>	<b>81,418,128</b>
<b>Deferred outflow of resources</b>			
Deferred loss on refunding		50,000	50,000
<b>Liabilities</b>			
Accounts payable	\$ 404,226	-	404,226
Accrued liabilities	102,223	-	102,223
Advances	138,002	-	138,002
Accrued interest payable	-	4,144	4,144
Long-term liabilities:			
Due within one year	-	557,263	557,263
Due in more than one year	-	1,820,369	1,820,369
<b>Total liabilities</b>	<b>644,451</b>	<b>2,381,776</b>	<b>3,026,227</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue - special assessments	99,267	(99,267)	-
<b>Fund balance</b>			
Nonspendable - inventory	344,822	(344,822)	-
Unassigned	4,944,508	(4,944,508)	-
<b>Total fund balance</b>	<b>5,289,330</b>	<b>(5,289,330)</b>	<b>-</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$ 6,033,048</b>		
<b>Net position</b>			
Net investment in capital assets		71,686,106	71,686,106
Unrestricted		6,755,795	6,755,795
<b>Total net position</b>		<b>\$ 78,441,901</b>	<b>\$ 78,441,901</b>

The accompanying notes are an integral part of these financial statements.

# EATON COUNTY ROAD COMMISSION

## Reconciliation of Governmental Fund Balance Sheet to Statement of Net Position September 30, 2014

Fund balance - general fund \$ 5,289,330

Amounts reported for *governmental activities* in the statement of net position are different because:

Certain assets used in *governmental activities* are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	24,415,666
Capital assets being depreciated, net	49,275,440
Prepaid items	216,442
Net other postemployment benefits asset	1,477,532

The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.

Deferred special assessment receivable	99,267
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Current liabilities, such as bonds payable, are not due and payable in the current period and are not reported in the funds.

Bonds payable	(2,055,000)
Unamortized deferred loss on bond refunding	50,000
Compensated absences	(322,632)
Accrued interest payable	(4,144)

Net position of governmental activities \$ 78,441,901

The accompanying notes are an integral part of these financial statements.

# EATON COUNTY ROAD COMMISSION

## Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2014

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Current:			
Public works	\$ 12,769,335	\$ (1,695,118)	\$ 11,074,217
Debt service:			
Principal	540,000	(540,000)	-
Interest	31,400	11,421	42,821
	<u>13,340,735</u>	<u>(2,223,697)</u>	<u>11,117,038</u>
Total expenditures/expenses			
Program revenues			
Charges for services	867,708	(43,593)	824,115
Operating grants and contributions	8,365,784	-	8,365,784
Capital grants and contributions	3,618,836	-	3,618,836
	<u>12,852,328</u>	<u>(43,593)</u>	<u>12,808,735</u>
Total program revenues			
Net program revenues			1,691,697
General revenues			
Interest earned	9,043	-	9,043
	<u>(479,364)</u>	<u>479,364</u>	
Net change in fund balance			
Changes in net position		1,700,740	1,700,740
Fund balance/net position, beginning of year	5,768,694	70,972,467	76,741,161
Fund balance/net position, end of year	<u>\$ 5,289,330</u>	<u>\$ 73,152,571</u>	<u>\$ 78,441,901</u>

The accompanying notes are an integral part of these financial statements.

# EATON COUNTY ROAD COMMISSION

## Reconciliation of Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities For the Year Ended September 30, 2014

Change in net position - general fund	\$ (479,364)
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> <p>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 and reported as depreciation expense.</p>	
Purchases of capital assets	5,801,135
Depreciation expense	(4,556,160)
Loss on disposal of capital assets	(29,746)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.</p>	
Change in deferred special assessments receivable	(43,593)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds but the repayment reduces long-term liabilities in the statement of net position.</p>	
Principal payments	540,000
<p>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 the funds:</p>	
Change in compensated absences	(8,320)
Amortization of deferred charge on refunding	(12,500)
Change in prepaid items	216,442
Change in accrued interest	1,079
Change in net other postemployment benefits asset	271,767
Change in net position of governmental activities	<u>\$ 1,700,740</u>

The accompanying notes are an integral part of these financial statements.

# EATON COUNTY ROAD COMMISSION

## Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Operating Fund For the Year Ended September 30, 2014

	Original Budget	Amended Budget	Actual	Variance
<b>Revenues</b>				
Permits	\$ 70,000	\$ 78,000	\$ 80,116	\$ 2,116
Intergovernmental:				
Federal sources	3,090,499	3,267,403	3,212,498	(54,905)
State sources	8,080,600	8,736,594	8,772,122	35,528
Local sources	701,934	582,186	672,601	90,415
Interest and rentals	9,049	9,049	9,043	(6)
Other	110,715	118,593	114,991	(3,602)
<b>Total revenues</b>	<u>12,062,797</u>	<u>12,791,825</u>	<u>12,861,371</u>	<u>69,546</u>
<b>Expenditures</b>				
Current:				
Construction - primary	-	6,000	4,674	(1,326)
Primary - preservation/ structural improvements	4,423,786	4,639,954	4,836,894	196,940
Local - Preservation/ structural improvements	1,033,596	412,370	428,351	15,981
Primary maintenance	3,650,000	3,792,000	3,514,939	(277,061)
Local maintenance	2,400,000	2,650,200	2,333,158	(317,042)
Equipment - net	-	-	(57,828)	(57,828)
Administrative - net	850,000	850,000	843,614	(6,386)
Capital outlay - net	627,600	343,600	247,952	(95,648)
Debt service	571,400	571,400	571,400	-
Other	975,833	900,833	617,581	(283,252)
<b>Total expenditures</b>	<u>14,532,215</u>	<u>14,166,357</u>	<u>13,340,735</u>	<u>(825,622)</u>
<b>Net change in fund balance</b>	<u>(2,469,418)</u>	<u>(1,374,532)</u>	<u>(479,364)</u>	<u>895,168</u>
<b>Fund balance, beginning of year</b>	<u>5,768,694</u>	<u>5,768,694</u>	<u>5,768,694</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 3,299,276</u>	<u>\$ 4,394,162</u>	<u>\$ 5,289,330</u>	<u>\$ 895,168</u>

The accompanying notes are an integral part of these financial statements.



# EATON COUNTY ROAD COMMISSION

## Statement of Fiduciary Net Position

September 30, 2014

	Employee Health Care Benefit Trust
Assets	
Investments, at fair value	
Mutual funds	<u>\$ 2,816,497</u>
Net position restricted for other postemployment benefits	<u><u>\$ 2,816,497</u></u>

The accompanying notes are an integral part of these financial statements.

# EATON COUNTY ROAD COMMISSION

## Statement of Changes in Fiduciary Net Position For the Year Ended September 30, 2014

	Employee Health Care Benefit Trust
<b>Additions</b>	
Contributions:	
Employer	\$ 506,327
Investment income:	
Net increase in fair value of investments	<u>219,926</u>
<b>Total additions</b>	<u>726,253</u>
<b>Deductions</b>	
Benefit payments	206,327
Administration	<u>24,948</u>
<b>Total deductions</b>	<u>231,275</u>
<b>Change in net position</b>	494,978
<b>Net position restricted for other postemployment benefits,</b>	
Beginning of the year	<u>2,321,519</u>
End of the year	<u><u>\$ 2,816,497</u></u>

The accompanying notes are an integral part of these financial statements.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Eaton County Road Commission (the "Road Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### Reporting Entity

The Eaton County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Eaton, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a five member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission provides services to sixteen townships in Eaton County and maintains over 1,173 miles of local and primary roads.

The Road Commission is a component unit of the County of Eaton, Michigan (the "County") because the County is a direct beneficiary of the services provided and is financially accountable for the Road Commission. These financial statements present the Eaton County Road Commission, a discretely presented component unit of Eaton County, and include the Road Commission's General Operating Fund.

The Road Commission General 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 has responsibility for the administration of the Road Commission's General Operating Fund.

#### Basis of Presentation

##### *Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. Governmental activities are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance. The major individual governmental fund is reported as a separate column in the aforementioned financial statements.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements (statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible 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 not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the Road Commission.

In addition, the government reports the Employee Healthcare Benefit Trust Fund as a fiduciary fund to account for the activity of the retirees' health care benefits.

Assets, deferred outflows of resources, liabilities, deferred inflows of resources and equity

### *Budgetary Data*

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted at the activity level, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. Excess expenditures over budget at this level are disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - for the General Operating Fund.

Available revenues and under spending in other functional categories were used to offset over expenditures in the General Operating Fund.

### *Inventory*

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first in, first out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

### *Prepaid Items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide statements. Expenditures for prepaid items are reported using the purchases method for governmental funds.

### *Fund Equity*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. As applicable, committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Road Commissioners. The Road Commission reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the Road Commission incurs an expenditure for purposes for which various fund balance classification can be used, it is the Road Commission's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

### *Capital Assets*

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items), are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$2,000 and with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	Useful life in Years
Buildings and improvements	40
Equipment	5-8
Infrastructure	
Roads	8-30
Bridges	25-50
Traffic Signals	15

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Road Commission only has one item that qualifies for reporting in this category, which is the deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

### *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### *Compensated Absences*

Under existing general Road Commission rules and regulations and its labor agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise under a modified accrual basis of accounting from special assessments that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## 2. CASH DEPOSITS AND INVESTMENTS

### Deposits

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

#### Statement of Net Position

Cash and interest bearing deposits	\$ 3,928,728
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#### Statement of Fiduciary Net Position

Employee Health Care Benefit Trust Fund	
Investments	2,816,497

<b>Total</b>	<b>\$ 6,745,225</b>
--------------	---------------------

	Carrying Amount	Bank Balance
Petty cash	\$ 250	\$ -
Checking account	10,089	889,400
Held by Eaton County - bank money markets	3,918,389	3,907,848
Investments	2,816,497	2,816,497
	<b>\$ 6,745,225</b>	<b>\$ 7,613,745</b>

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

### Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Health Care Benefits Trust Funds' investments are held primarily in mutual funds.

### Deposit and Investment Risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk.

As of September 30, 2014, the Road Commission has invested \$2,816,497 in an external investment pool. The fund invests primarily in a portfolio of equity securities which are not subject to an investment rating.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of September 30, 2014, \$250,000 of the Road Commission's bank balance was insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$3,907,848 held by Eaton County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.



# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk. None of the Road Commission's investments are subject to custodial credit risk because their existence is not evidenced by securities in physical or book form.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held by the Road Commission at September 30, 2014 were in an external investment pool.

### 3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Capital assets not being depreciated</b>				
Land	\$ 243,002	\$ -	\$ -	\$ 243,002
Land improvements - right of ways	783,587	5,049	-	788,636
Land improvements - infrastructure	23,382,860	1,168	-	23,384,028
<b>Total capital assets not being depreciated</b>	<b>24,409,449</b>	<b>6,217</b>	<b>-</b>	<b>24,415,666</b>
<b>Capital assets being depreciated</b>				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	6,481,922	6,815	-	6,488,737
Equipment:				
Road	5,672,974	512,797	103,853	6,081,918
Shop	84,823	4,629	-	89,452
Office	299,637	6,974	-	306,611
Engineering	129,657	-	5,451	124,206
Yard and storage	564,081	1	-	564,082
Infrastructure - roads	71,533,941	5,242,144	4,148,872	72,627,213
Infrastructure - bridges	20,183,840	21,558	-	20,205,398
Infrastructure - traffic signals	1,574,113	-	-	1,574,113
<b>Total capital assets being depreciated</b>	<b>106,575,547</b>	<b>5,794,918</b>	<b>4,258,176</b>	<b>108,112,289</b>

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Less accumulated depreciation for				
Depletable assets	\$ 50,559	\$ -	\$ -	\$ 50,559
Buildings and improvements	1,879,580	129,449	-	2,009,029
Equipment:				
Road	5,416,779	135,804	98,753	5,453,830
Shop	80,786	1,892	-	82,678
Office	294,793	2,748	-	297,541
Engineering	127,039	630	5,451	122,218
Yard and storage	538,491	6,521	-	545,012
Infrastructure - roads	40,962,098	3,758,790	4,124,226	40,596,662
Infrastructure - bridges	8,244,278	418,718	-	8,662,996
Infrastructure - traffic signals	914,716	101,608	-	1,016,324
<b>Total accumulated depreciation</b>	<b>58,509,119</b>	<b>4,556,160</b>	<b>4,228,430</b>	<b>58,836,849</b>
<b>Total assets being depreciated, net</b>	<b>48,066,428</b>	<b>1,238,758</b>	<b>29,746</b>	<b>49,275,440</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 72,475,877</b>	<b>\$ 1,244,975</b>	<b>\$ 29,746</b>	<b>\$ 73,691,106</b>

## 4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
MTF Refunding Bonds - 2013	\$ 2,595,000	\$ -	\$ (540,000)	\$ 2,055,000	\$ 525,000
Compensated absences	314,312	179,881	(171,561)	322,632	32,263
	<b>\$ 2,909,312</b>	<b>\$ 179,881</b>	<b>\$ (711,561)</b>	<b>\$ 2,377,632</b>	<b>\$ 557,263</b>

### MTF Bonds

The County of Eaton issued \$2,595,000 of Michigan Transportation Fund Refunding Bonds, Series 2013 on March 8, 2013 pursuant to the provisions of Act 51, Public Acts of Michigan of 1951, as amended for the purpose of refunding bonds proceeds that were used for the constructing, improving, maintaining and repairing certain Road Commission buildings. These bonds are a general obligation of Eaton County, which has pledged its full faith and credit for the payment of the debt service on these bonds.

The bonds are payable in annual installments of \$505,000 to \$540,000, plus interest at 1.21% per annum; final payment due August 2018.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

### Accrued Sick and Vacation

Employees are granted vacation and sick leave in varying amounts based upon the Road Commission's administrative policy and union contract. Vacation time is credited annually to each employee, but cannot be accumulated for more than one year. Employees are limited to 160 days of sick leave accumulation. Upon retirement, termination (resignation), death, or permanent disability, all employees are paid out 50% of their accumulated sick leave. Vacation is paid out at 100% at the end of each fiscal year.

The annual requirement to amortize the debt outstanding as of September 30, 2014, excluding sick and vacation leave payable, is as follows:

Years Ending September 30,	MTF Bonds		
	Principal	Interest	Total
2015	\$ 525,000	\$ 24,865	\$ 549,865
2016	515,000	18,514	533,514
2017	505,000	12,283	517,283
2018	510,000	6,172	516,172
Total	<u>\$ 2,055,000</u>	<u>\$ 61,834</u>	<u>\$ 2,116,834</u>

## 5. DEFINED CONTRIBUTION PENSION PLAN

The Road Commission provides pension benefits for substantially all of its full-time employees through a defined contribution plan, called the Eaton County Road Commission Money Purchase Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after reaching the age of 18 and completing one year of service. Vesting is 100% on entry. The plan requires the Road Commission to contribute, on behalf of each covered employee, twelve percent (12%) of the employees' covered compensation. There is no contribution requirement of the plan members. Plan provisions and contribution requirements are established and may be amended by the Board of the Road Commission.

The Road Commission's contributions to the plan were \$200,735 for the year ended September 30, 2014.

## 6. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1982, the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) was established by the road commissions in the State of Michigan as a public entity risk pool to operate a common risk management and insurance program for road commissions. Eaton County Road Commission pays annual premiums to MCRCSIP for its general insurance coverage, including coverage and services for general liability, auto liability, property, stop loss protection, claims administration, and risk management and loss control. The agreement for formation of the MCRCSIP provides that MCRCSIP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$100,000 for each insured event.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

Also, the Road Commission participates in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool established for worker's compensation insurance to operate a common risk management and insurance program for road commissions. The Road Commission pays quarterly premiums to CRASIF for its workers' compensation insurance coverage. The agreement for formation of the CRASIF provides that CRASIF will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### 7. CONTINGENCIES

Under the terms of various federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

### 8. ECONOMIC DEPENDENCY

The Road Commission receives a substantial amount of its revenues from federal and state grants. A significant reduction in the level of this support, if this were to occur, could have an effect on the Eaton County Road Commission's ability to continue its activities.

### 9. FEDERAL FUNDING

The Road Commission is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures are included in the single audit for the State of Michigan. Because the Road Commission expended less than \$500,000 in directly administered federal awards, no single audit was required for the year ended September 30, 2014.

### 10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

*Plan description.* The Road Commission administers a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 5, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance-funded on a discretionary basis. In accordance with the Road Commission's policy, eligible retirees and their spouses receive healthcare benefits at the age of normal retirement of 59 ½ years.

*Funding policy.* The contribution requirements of Plan members and the Road Commission are established and may be amended by the Road Commission Board. Retirees who retire before March 9, 2004 are subject to no maximum benefit limitations, and all retirees who retire after March 9, 2004 receive a maximum employer contribution of \$500 per month for one person coverage and \$1,000 per month for two person coverage. Also, there may be an additional amount to prefund benefits as determined annually by the Road Commission Board of Commissioners. For the year ended September 30, 2014, the Road Commission contributed \$506,327 to the Plan.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

*Annual OPEB Cost and Net OPEB Asset.* The Road Commission’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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 Road Commission’s net OPEB asset:

Annual required contribution	\$ 235,542
Interest on net OPEB asset	(60,288)
Adjustment to annual required contribution	<u>59,306</u>
Net OPEB cost (expense)	234,560
Contributions made	<u>506,327</u>
Increase in net OPEB asset	271,767
Net OPEB asset, beginning of year	<u>1,205,765</u>
Net OPEB asset, end of year	<u><u>\$ 1,477,532</u></u>

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2014 and the previous two years, was as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Contribution	Net OPEB Asset
9/30/2012	\$ 235,542	218%	\$ 931,008
9/30/2013	234,784	217%	1,205,765
9/30/2014	234,560	216%	1,477,532

*Funded status and funding progress.* As of September 30, 2012, the date of the latest actuarial valuation, the actuarial accrued liability for benefits was \$4,860,367, of which \$3,018,013 was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,668,960 and the ratio of the UAAL to the covered payroll was 180.8 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

# EATON COUNTY ROAD COMMISSION

## Notes to Financial Statements

*Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and 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 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 following simplifying assumptions were made:

*Retirement age for active employees.* Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 59 1/2.

*Marital status* - Marital status of members at the calculation date was assumed to continue throughout retirement.

*Healthcare cost trend rate* - NIH National Health Expenditure Projections, 2008-2018.

*Payroll growth rate* - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Road Commission's short-term investment portfolio, a discount rate of 5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2014, was twenty-five years.

## 11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of September 30, 2014, was as follows:

Capital assets:	
Not being depreciated	\$ 24,415,666
Being depreciated, net	49,275,440
	<u>73,691,106</u>
Related debt:	
Bonds and installment loans payable	2,055,000
Deferred loss on refunding	(50,000)
	<u>2,005,000</u>
Net investment in capital assets	<u>\$ 71,686,106</u>



**GASB STATEMENT 45 REQUIRED SUPPLEMENTARY INFORMATION**

# EATON COUNTY ROAD COMMISSION

## GASB Statement 45 Required Supplementary Information Retired Employees' Healthcare Plan

### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
9/30/2006	\$ -	\$ 8,823,000	\$ 8,823,000	0.0%	\$ 1,659,533	531.7%
9/30/2009	649,075	3,697,360	3,048,285	17.6%	1,706,511	178.6%
9/30/2012	1,842,354	4,860,367	3,018,013	37.9%	1,668,960	180.8%

### Schedule of Employer Contributions

Year Ended September 30,	Annual Required Contributions	Percentage Contributed
2012	\$ 235,542	218.1%
2013	235,542	216.3%
2014	235,542	215.0%



## OPERATING FUND SCHEDULES

# EATON COUNTY ROAD COMMISSION

## Detailed Schedule of Revenues - Budget and Actual

General Operating Fund

For the Year Ended September 30, 2014

	Amended Budget	Actual	Variance
Permits	\$ 78,000	\$ 80,116	\$ 2,116
Federal sources:			
Bridge	11,127	11,127	-
Surface transportation program	2,639,359	2,256,919	(382,440)
D funds	251,919	245,370	(6,549)
Other	364,998	699,082	334,084
Total federal sources	<u>3,267,403</u>	<u>3,212,498</u>	<u>(54,905)</u>
State sources:			
Motor vehicle highway funds - Act 51	7,835,000	7,871,876	36,876
Economic development fund	405,600	403,107	(2,493)
Other	495,994	497,139	1,145
Total state sources	<u>8,736,594</u>	<u>8,772,122</u>	<u>35,528</u>
Local sources:			
Local unit contributions	582,186	672,601	90,415
Interest and rentals	9,049	9,043	(6)
Other:			
Special assessments	43,593	43,593	-
Other	75,000	71,398	(3,602)
Total other	<u>118,593</u>	<u>114,991</u>	<u>(3,602)</u>
Total revenues	<u>\$ 12,791,825</u>	<u>\$ 12,861,371</u>	<u>\$ 69,546</u>

# EATON COUNTY ROAD COMMISSION

## Detailed Schedule of Expenditures - Budget and Actual

General Operating Fund

For the Year Ended September 30, 2014

	Amended Budget	Actual	Variance
Construction:			
Primary roads	\$ 6,000	\$ 4,674	\$ (1,326)
Preservation - structural improvements:			
Primary roads and structures	4,639,954	4,836,894	196,940
Local roads and structures	412,370	428,351	15,981
Total preservation - structural improvements	<u>5,052,324</u>	<u>5,265,245</u>	<u>212,921</u>
Routine and preventative maintenance:			
Primary roads and structures, winter and traffic control	3,792,000	3,514,939	(277,061)
Local roads and structures, winter and traffic control	2,650,200	2,333,158	(317,042)
Total maintenance	<u>6,442,200</u>	<u>5,848,097</u>	<u>(594,103)</u>
Equipment:			
Direct	550,000	565,119	15,119
Indirect	1,000,000	831,802	(168,198)
Operating	450,000	404,423	(45,577)
Less: equipment rental	(2,000,000)	(1,859,172)	140,828
Total equipment, net	<u>-</u>	<u>(57,828)</u>	<u>(57,828)</u>
Administrative:			
Administration	<u>850,000</u>	<u>843,614</u>	<u>(6,386)</u>
Capital outlay:			
Land improvements, building and equipment	643,600	530,293	(113,307)
Less: Depreciation	(300,000)	(277,241)	22,759
Retirements	-	(5,100)	(5,100)
Total capital outlay, net	<u>343,600</u>	<u>247,952</u>	<u>(95,648)</u>
Debt service:			
Principal retirement	540,000	540,000	-
Interest and fiscal charges	31,400	31,400	-
Total debt service	<u>571,400</u>	<u>571,400</u>	<u>-</u>
Other expense	<u>900,833</u>	<u>617,581</u>	<u>(283,252)</u>
Total expenditures	<u>\$ 14,166,357</u>	<u>\$ 13,340,735</u>	<u>\$ (825,622)</u>

# EATON COUNTY ROAD COMMISSION

## Schedule of Revenues, Expenditures and Changes in Fund Balances By Component General Operating Fund For the Year Ended September 30, 2014

	Primary Roads	Local Roads	County Roads	Total
<b>Revenues</b>				
Permits	\$ -	\$ -	\$ 80,116	\$ 80,116
Intergovernmental:				
Federal sources	3,008,110	11,127	193,261	3,212,498
State sources	6,176,280	2,595,842	-	8,772,122
Local sources	80,164	475,105	117,332	672,601
Interest and rentals	246	8,759	38	9,043
Other	-	79,043	35,948	114,991
<b>Total revenues</b>	<b>9,264,800</b>	<b>3,169,876</b>	<b>426,695</b>	<b>12,861,371</b>
<b>Expenditures</b>				
Construction	4,674	-	-	4,674
Preservation - structural improvements	4,836,894	428,351	-	5,265,245
Maintenance	3,514,939	2,333,158	-	5,848,097
Equipment - net	(21,467)	(27,734)	(8,627)	(57,828)
Administrative - net	634,076	209,538	-	843,614
Capital outlay - net	-	-	247,952	247,952
Debt principal	-	-	540,000	540,000
Interest and fiscal charges	-	-	31,400	31,400
Other	915,642	264,629	(562,690)	617,581
<b>Total expenditures</b>	<b>9,884,758</b>	<b>3,207,942</b>	<b>248,035</b>	<b>13,340,735</b>
<b>Net change in fund balance</b>	<b>(619,958)</b>	<b>(38,066)</b>	<b>178,660</b>	<b>(479,364)</b>
<b>Fund balance, beginning of year</b>	<b>4,950,801</b>	<b>38,066</b>	<b>779,827</b>	<b>5,768,694</b>
<b>Fund balance, end of year</b>	<b>\$ 4,330,843</b>	<b>\$ -</b>	<b>\$ 958,487</b>	<b>\$ 5,289,330</b>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

March 12, 2015

Members of the Board of County  
Road Commissioners  
County of Eaton, Michigan  
Charlotte, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the *Eaton County Road Commission* (the "Road Commission"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated March 12, 2015.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Road Commission’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

