

**Eaton County Road Commission  
Charlotte, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2018**

Eaton County Road Commission

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## INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners  
Eaton County  
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 (Road Commission), a component unit of Eaton County, Michigan, as of and for the year ended September 30, 2018, 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.

### ***Auditor's 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. 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 auditor's 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, 2018, and the respective changes in financial position for the year then ended in accordance 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, budgetary comparison information, and other post-employment benefit system schedules, as identified 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 other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Manes Costeiran PC*

March 6, 2019

# Eaton County Road Commission

## Management's Discussion and Analysis

As management of the Eaton County Road Commission (Road Commission), we offer the readers of the Road Commission's financial statements this narrative and analysis of the financial activities of the Road Commission for the fiscal year ended September 30, 2018.

### 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 \$97,048,076 at the end of the fiscal year. There was an increase of \$5,965,463 in net position during 2018.

The general operating fund had an increase in fund balance for the year of \$1,541,507. Total fund balance is \$8,771,391.

### 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 one 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 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.

### Fund Financial Statements

A fund is a 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.

# Eaton County Road Commission

## Management's Discussion and Analysis

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 (general fund). Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the Road Commission. The general fund is a major fund for financial reporting purposes 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's discussion and analysis and trend information for the Retired Employees' Healthcare Plan.

### Condensed Statement of Net Position

	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
Assets		
Current and other assets	\$ 11,346,986	\$ 8,976,661
Capital assets, net	88,365,367	85,163,696
Total assets	99,712,353	94,140,357
Deferred outflows of resources	-	12,500
Liabilities		
Long-term liabilities	265,652	1,256,984
Other liabilities	1,395,207	1,543,806
Total Liabilities	1,660,859	2,800,790
Deferred inflows of resources	1,103,418	-
Net Position		
Net investment in capital assets	88,365,367	84,666,196
Restricted	15,123	-
Unrestricted	8,667,586	6,416,417
Total net position	\$ 97,048,076	\$ 91,082,613

### Condensed Statement of Activities

	<u>Year Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Revenue		
Program revenues:		
Charges for services	\$ 382,722	\$ 650,819
Operating grants and contributions	12,626,531	10,578,775
Capital grants and contributions	607,761	2,696,950
General revenues:		
Property taxes	4,088,338	3,964,117
Interest earned	174,555	54,245
Miscellaneous income	2,436	10,091
Total Revenue	<u>17,882,343</u>	<u>17,954,997</u>
Expenses		
Public works	11,899,324	11,737,648
Debt service – interest	17,556	23,707
Total expenses	<u>11,916,880</u>	<u>11,761,355</u>
Increase in net position	5,965,463	6,193,642
Net position, beginning of year	<u>91,082,613</u>	<u>84,888,971</u>
Net position, end of year	<u>\$ 97,048,076</u>	<u>\$ 91,082,613</u>

### **Governmental Activities**

Governmental activities increased the Road Commission's net position by \$5,965,463 during fiscal year 2018. 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 the county-wide property tax millage dedicated to the repair and rehabilitation of county local roads as well as an increase in distributions from the Michigan Transportation Fund.

### **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, 2018 was \$8,771,391, compared to \$7,229,884 at September 30, 2017 and was comprised of three components. One component is nonspendable to indicate that it was not available for spending because it has already been committed to inventory purchases and prepaid items, which are included as fund assets. The nonspendable fund balance was \$495,102 as of September 30, 2018. The next component of fund balance is \$4,237,348 that is assigned for subsequent year's expenditures. The remaining balance of the Road Commission's fund balance is considered unassigned. The unassigned fund balance at September 30, 2018 was \$4,038,941.

Overall, there was an increase in the total fund balance of \$1,541,507 for 2018 due to operating revenues exceeding expenditures.

### **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 2018 budget to reflect a decrease in revenue of approximately \$278,000 and a decrease to expenditures of approximately \$923,000, both primarily related to federally funded projects deferred to 2019.

### Capital Assets and Debt Administration

#### Capital Assets

Capital assets in total, net of accumulated depreciation, increased from \$85,163,696 to \$88,365,367 due primarily to investments in infrastructure made possible by the county-wide property tax millage. 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 regarding capital assets can be found in the notes to the financial statements.

#### Noncurrent Liabilities

Noncurrent liabilities at September 30, 2018 included compensated absences of \$265,652, which consists of accumulated vacation and sick leave (at 50%), which is earned but not yet paid. More detailed information of long-term debt can be found in the notes to the financial statements.

As of September 30, 2018, the Road Commission had no outstanding loans.

#### Economic Factors and Road Fund Budgetary Highlights

On January 1, 2017, increases in the state gas tax and vehicle registration fees went into effect. The 2018 fiscal year was the first year the increased taxes and fees were in effect for the entire year and generated over \$1,000,000 in additional Michigan Transportation Fund (MTF) distributions to the Road Commission. However, for the 2018-2019 fiscal year, the Michigan Department of Transportation has notified local road agencies that multiple negative adjustments will be made to the monthly MTF distributions due to errors in calculations at the state level over the course of the prior fiscal year. We anticipate that this will result in a flat, or possibly modestly negative, change in the Road Commission's MTF distributions for the 2019 fiscal year. Additionally, 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.

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 totaled over \$4 million in 2018 and is expected to increase by approximately 5% in 2019. In compliance with the ballot language, revenues from this millage 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.

The Road Commission expects an increase in the number of road and bridge projects funded primarily by federal and state grants in 2019, which will result in increased levels of related revenues and expenditures compared to fiscal year 2018.

While the Road Commission's maintenance expenditures are sensitive to weather conditions, 2019 expenditures are expected to be similar to 2018.

#### Request for Information

This financial report is designed to provide a general overview of the 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 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

GOVERNMENTAL FUND BALANCE SHEET/  
STATEMENT OF NET POSITION

September 30, 2018

	General Operating Fund	Adjustment	Statement of Net Position
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,664,904	\$ -	\$ 7,664,904
Accounts receivable	4,496	-	4,496
Due from other governmental units			
Federal/State	1,916,119	-	1,916,119
Local	56,460	-	56,460
Inventory	495,102	-	495,102
Prepaid items	-	191,364	191,364
Capital assets not being depreciated	-	24,416,649	24,416,649
Capital assets, net of accumulated depreciation	-	63,948,718	63,948,718
Net OPEB asset	-	1,018,541	1,018,541
	<u>\$ 10,137,081</u>	89,575,272	99,712,353
<b>LIABILITIES</b>			
Accounts payable	\$ 1,192,059	-	1,192,059
Accrued liabilities	162,878	-	162,878
Advances from other governmental units	10,753	-	10,753
Current portion of accrued compensated absences	-	29,517	29,517
Noncurrent portion of accrued compensated absences	-	265,652	265,652
	1,365,690	295,169	1,660,859
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to OPEB	-	1,003,418	1,003,418
<b>FUND BALANCE</b>			
Nonspendable - inventory	495,102	(495,102)	-
Assigned - subsequent year's expenditures	4,237,348	(4,237,348)	-
Unassigned	4,038,941	(4,038,941)	-
	<u>8,771,391</u>	<u>(8,771,391)</u>	-
	<u>\$ 10,137,081</u>		<u>2,664,277</u>
<b>NET POSITION</b>			
Net investment in capital assets		88,365,367	88,365,367
Restricted		15,123	15,123
Unrestricted		8,667,586	8,667,586
		<u>\$ 97,048,076</u>	<u>\$ 97,048,076</u>

See accompanying notes to financial statements.

Eaton County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

September 30, 2018

**Total fund balance - governmental fund** \$ 8,771,391

Amounts reported for the 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 as assets in the governmental fund.

Capital assets not being depreciated	24,416,649
Capital assets being depreciated	63,948,718

Some assets are not current financial resources and therefore are not reported as assets in the governmental funds. These amounts consist of:

Net OPEB asset	1,018,541
Prepaid items	191,364

Governmental funds report actual OPEB expenditures for the fiscal year, whereas the governmental activities will recognize the net OPEB liability as of the measurement date. OPEB contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual OPEB plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred inflows of resources related to OPEB	(1,003,418)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist of:

Compensated absences	<u>(295,169)</u>
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**Net position of governmental activities** \$ 97,048,076

Eaton County Road Commission

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

Year Ended September 30, 2018

	General Operating Fund	Adjustments	Statement of Activities
Expenditures/Expenses			
Current			
Public Works	\$ 15,824,751	\$ (3,925,427)	\$ 11,899,324
Debt service	516,085	(498,529)	17,556
TOTAL EXPENDITURES/EXPENSES	16,340,836	(4,423,956)	11,916,880
Program revenues			
Charges for services	382,722	-	382,722
Operating grants and contributions	12,626,531	-	12,626,531
Capital grants and contributions	607,761	-	607,761
TOTAL PROGRAM REVENUES	13,617,014	-	13,617,014
NET PROGRAM (EXPENDITURES/EXPENSES) /REVENUES	(2,723,822)	4,423,956	1,700,134
General revenues			
Property taxes	4,088,338	-	4,088,338
Interest	174,555	-	174,555
Other	2,436	-	2,436
TOTAL GENERAL REVENUES	4,265,329	-	4,265,329
NET CHANGE IN FUND BALANCE/NET POSITION	1,541,507	4,423,956	5,965,463
Fund Balance/Net position, beginning of the year	7,229,884	83,852,729	91,082,613
Fund Balance/Net position, end of the year	<u>\$ 8,771,391</u>	<u>\$ 88,276,685</u>	<u>\$ 97,048,076</u>

See accompanying notes to financial statements.

Eaton County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2018

**Net change in fund balance - governmental fund** **\$ 1,541,507**

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

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Purchases of capital assets	9,049,650
Depreciation expense	(5,847,979)

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.

Principal payments	510,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental fund. These activities consist of:

Change in accrued interest	1,029
Amortization of deferred charge on refunding	(12,500)
Change in compensated absences	3,469
Change in prepaid items	(12,636)
Change in deferred inflows of resources related to OPEB	(733,964)
Change in net OPEB liability	<u>1,466,887</u>

**Change in net position of governmental activities** **\$ 5,965,463**

Eaton County Road Commission  
STATEMENT OF FIDUCIARY NET POSITION  
September 30, 2018

	<u>Employee Health Care Benefit Trust</u>
ASSETS	
Current assets	
Investments	\$ 4,910,495
Accrued interest	<u>11,342</u>
TOTAL ASSETS	<u>4,921,837</u>
NET POSITION	
Restricted for retiree health care benefits	<u>\$ 4,921,837</u>

See accompanying notes to financial statements.

Eaton County Road Commission

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended September 30, 2018

	<u>Employee Health Care Benefit Trust</u>
ADDITIONS	
Contributions Employer	\$ 587,798
Investment earnings Net change in fair value of investments	<u>330,941</u>
TOTAL ADDITIONS	918,739
DEDUCTIONS	
Benefit payments	287,798
Administrative expenses	<u>43,389</u>
TOTAL DEDUCTIONS	<u>331,187</u>
CHANGE IN NET POSITION	587,552
Net position, beginning of year	<u>4,334,285</u>
Net position, end of year	<u><u>\$ 4,921,837</u></u>

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

1. Reporting Entity

The Eaton County 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 (Road Commission Board) appointed by the County Board of Commissioners. The Road Commission provides services to 16 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, (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 Road Commission Board has responsibility for the administration of the Road Commission's General Operating Fund.

2. Basis of Presentation

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.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements (statement of net position and 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. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

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. 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, property taxes, 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 Health Care Benefit Trust Fund as a fiduciary fund to account for the activity of the retirees' health care benefits.

4. Property Tax Revenue

Property taxes are levied on December 1 of each year (the lien date) and are due in full by March 1 of the year following the levy, at which time uncollected taxes become delinquent. Property taxes recorded for the fiscal year ended September 30, 2018 were levied and billed on December 1, 2017. All property taxes are billed and collected by cities, villages, and townships and remitted to Eaton County. Eaton County remits property taxes to the Road Commission.

5. 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.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on an 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.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Inventory

Inventory consists of various operating parts, supplies, and road materials, 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.

7. 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 government funds.

8. Fund Equity

Government 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 required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of 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 of 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 classifications 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.

9. 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 an estimated useful 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 acquisition cost at the date received.

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

The Uniform Accounting Procedures Manual 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 5 to 50 years) of the assets, using the sum-of-years digits methods for road equipment and the straight-line method for all other capital assets and infrastructure as follows:

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Capital Assets - continued

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Equipment	4-10
Infrastructure:	
Roads	8-30
Bridges	25-50
Traffic Signals	15

10 Deferred Outflows of Resources

In addition to assets, the statement of net position or balance sheet 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 does not currently have any items that qualify for reporting in this category.

11. 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 the number of years of service completed by each employee.

12. Deferred Inflows of Resources

In addition to liabilities, the statement of net 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 Road Commission reports deferred inflows of resources for amounts related to its OPEB plan, including the difference between expected and actual experience, changes in assumptions, and the difference between expected and actual investment returns.

13. Postemployment Benefits Other Than Pension (OPEB)

For purposes of measuring the net OPEB asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Eaton County Road Commission Retired Employees' Healthcare Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Road Commission. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Eaton County Road Commission  
NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE B: 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 follow:

Statement of net position	
Cash and interest bearing deposits	\$ 7,664,904
Statement of fiduciary net position	
Employee Health Care Benefit Trust Fund investments	4,910,495
Total	<u>\$ 12,575,399</u>

	Carrying Amount	Bank Balance
Petty Cash	\$ 250	\$ -
Checking accounts	23,044	2,230,887
Held by Eaton County - MI Class	7,641,610	7,641,610
Investments	4,910,495	4,910,495
	<u>\$ 12,575,399</u>	<u>\$ 14,782,992</u>

Investments

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

1. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
3. Commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Bankers' acceptances of United States banks.
5. 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.
6. 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 local units of government in Michigan.
7. 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.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED**

Fair Value Measurements

The Road Commission categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Road Commission's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy are presented below.

As of September 30, 2018, the carrying amounts and fair values for each investment are as follows:

	Fair Value Measurements			Total	Moody's Rating	Weighted Average Maturity (years)
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
US Treasury Notes	\$ 246,329	\$ -	\$ -	\$ 246,329	Aaa	1.71
Corporate Bonds	-	801,480	-	801,480	Baa2 - Aa1	6.65
Federal Home Loan Mortgage Company	-	208,413	-	208,413	Aaa	1.69
Federal National Mortgage Association	-	158,649	-	158,649	Aaa	0.88
Mutual funds	3,495,624	-	-	3,495,624	N/A	N/A
Held by Eaton County - MI Class	-	7,641,610	-	7,641,610	N/A	N/A
	<u>\$ 3,741,953</u>	<u>\$ 8,810,152</u>	<u>\$ -</u>	<u>\$ 12,552,105</u>		

Eaton County maintains an investment account in the Michigan Cooperative Liquid Assets Securities System (Michigan CLASS) on behalf of the Road Commission. Michigan CLASS are uncategorized pooled investment funds that invest in high quality, short-term, fixed-income instruments selected to provide for program safety, liquidity, and competitive rates of return. Michigan CLASS is not registered with the U.S. Securities and Exchange Commission (SEC). Michigan CLASS's annual report may be obtained at [www.michiganclass.org](http://www.michiganclass.org). The fair value of the Michigan CLASS investment is the same as the value of the pooled shares. Deposits with Michigan CLASS and held in investments categorized as Level 2.

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.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED**

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.

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, 2018, \$250,000 of the Road Commission's bank balances were insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$7,641,610 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.

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 on the previous pages. 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 as of September 30, 2018 were in an external investment pool.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE C: CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	\$ 243,002	\$ -	\$ -	\$ 243,002
Land improvements - right of ways	788,636	-	-	788,636
Land improvements - infrastructure	23,385,011	-	-	23,385,011
<b>Total capital assets not being depreciated</b>	<b>24,416,649</b>	<b>-</b>	<b>-</b>	<b>24,416,649</b>
Capital assets being depreciated				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	6,535,819	144,148	-	6,679,967
Equipment:				
Road	6,869,124	376,552	(266,635)	6,979,041
Shop	97,152	-	-	97,152
Office	229,944	8,568	-	238,512
Engineering	73,781	-	-	73,781
Yard and storage	574,905	-	-	574,905
Infrastructure - roads	85,421,492	8,421,124	(3,263,742)	90,578,874
Infrastructure - bridges	22,289,946	93,898	-	22,383,844
Infrastructure - traffic signals	2,491,996	5,360	-	2,497,356
<b>Total capital assets being depreciated</b>	<b>124,634,718</b>	<b>9,049,650</b>	<b>(3,530,377)</b>	<b>130,153,991</b>
Less: accumulated depreciation/depletion				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	2,401,016	131,325	-	2,532,341
Equipment:				
Road	5,815,735	468,471	(265,772)	6,018,434
Shop	87,820	1,896	-	89,716
Office	222,832	3,632	-	226,464
Engineering	38,953	9,017	-	47,970
Yard and storage	563,108	4,860	-	567,968
Infrastructure - roads	43,499,354	4,678,881	(3,263,742)	44,914,493
Infrastructure - bridges	9,809,320	437,454	-	10,246,774
Infrastructure - traffic signals	1,398,974	111,580	-	1,510,554
<b>Total accumulated depreciation</b>	<b>63,887,671</b>	<b>5,847,116</b>	<b>(3,529,514)</b>	<b>66,205,273</b>
<b>Total assets being depreciated, net</b>	<b>60,747,047</b>	<b>3,202,534</b>	<b>(863)</b>	<b>63,948,718</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 85,163,696</b>	<b>\$ 3,202,534</b>	<b>\$ (863)</b>	<b>\$ 88,365,367</b>

The current period depreciation expense of \$5,847,116 has been adjusted by \$863 for the loss on disposal of capital assets during the period, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Eaton County Road Commission  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018

**NOTE C: CAPITAL ASSETS - CONTINUED**

Depreciation expense was charged to the following activities:

	<b>Amount</b>
Net equipment expense	
Direct equipment	\$ 478,175
Indirect equipment	105,249
Net administrative expense	32,831
Other distributive expense	14,003
Infrastructure	5,227,915
	5,858,173
Prior year depreciation expensed in current year	(11,057)
Loss on disposals of capital assets adjusted through depreciation	863
	<b>\$ 5,847,979</b>

**NOTE D: LONG-TERM DEBT**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
MTF Refunding Bonds - 2013	\$ 510,000	\$ -	\$ (510,000)	\$ -	\$ -
Compensated absences	298,638	177,786	(181,255)	295,169	29,517
	\$ 808,638	\$ 177,786	\$ (691,255)	\$ 295,169	\$ 29,517

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 bond proceeds that were used for the constructing, improving, maintaining, and repairing of certain Road Commission buildings. These bonds were a general obligation of Eaton County, which pledged its full faith and credit for the payment of the debt service on these bonds.

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

Compensated Absences - Vacation and Sick Leave

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. Unused vacation is paid out at 100% after the end of each fiscal year.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE E: 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 \$750,000 in directly administered federal awards, no single audit was required for the year ended September 30, 2018.

**NOTE F: 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.

**NOTE G: 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 \$214,858 for the year ended September 30, 2018.

**NOTE H: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Plan Description

The Road Commission administers the Eaton County Road Commission Retired Employees' Healthcare Plan (Plan), a single-employer defined benefit healthcare plan. In addition to the retirement benefits described in Note G, 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.

Management of the Plan is vested in the Road Commission Board, which consists of five members appointed by the Eaton County Board of Commissioners.

Plan Membership

As of the most recent actuarial valuation on September 30, 2017, the Plan membership consisted of the following:

Inactive plan members receiving benefits	33
Active plan members	33
Total	<u>66</u>

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE H: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

Benefits Provided

The Plan provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the cost of benefits is dependent upon the employee's retirement date. The benefit terms are established in the Collective Bargaining Agreement.

Contributions

The contribution requirements of Plan members and the Road Commission are established and may be amended by the Road Commission Board. Contribution rates are established based on an actuarially determined rate. For the year ended September 30, 2018, the Road Commission's average contribution rate was 29.14 percent of covered-employee payroll. Plan members are required to contribute the cost of healthcare premiums in excess of their individual benefit maximum to the Plan.

Retirees who retired before March 9, 2004 are subject to no maximum benefit limitations; retirees who retired between March 10, 2004 and September 30, 2015 receive a maximum employer contribution of \$500 per month for one person coverage and \$1,000 per month for two person coverage; and retirees who retire after September 30, 2015 receive a maximum employer contribution of \$550 per month for one person coverage and \$1,100 per month for two person coverage. Also, there may be an additional amount to prefund benefits as determined annually by the Road Commission Board. For the year ended September 30, 2018, the Road Commission contributed \$587,798 to the Plan.

Investments

The Road Commission's investment policy in regard to the allocation of the Plan's invested assets is established and may be amended by the Road Commission Board. It is the policy of the Road Commission Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

The following was the plan's target asset allocation as of September 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Global equity	57.50%
Global fixed income	36.20%
Diversifying strategies	4.10%
Cash	2.20%
	<u>100.00%</u>

For the year ended September 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 7.15 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Asset

The Road Commission's net OPEB asset was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of September 30, 2017 and rolled forward to the measurement date of September 30, 2018.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE H: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017 using the alternative measurement method and rolled forward to the measurement date. The total OPEB liability was calculated based on the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation: Included in investment rate of return

Salary increases: 2.00%

Investment rate of return: 6.73% including inflation

Healthcare cost trend rates: Pre-65 - 8.00% graded to 5.00% over 6 years; Medicare eligible - 5% in all years; Dental and Vision: 4.00%

Mortality: As set forth in IRS Regulations for 2018 (1.430(h)(3)), separately for males and females as well as annuitants and non-annuitants. Based on the RP-2000 Tables with Scale AA.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of September 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Rate of Return</u>
Global equity	8.00%
Global fixed income	5.50%
Real assets	6.20%
Diversifying strategies	2.75%
Cash	1.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 6.73 percent. The projection of cash flows used to determine the discount rate assumed that Road Commission advance funding contributions will be \$300,000 per year until fully funded. Based on those assumptions, the Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate used as of September 30, 2017 was 4.56%.

Eaton County Road Commission  
NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE H: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

Changes in the Net OPEB Liability (Asset)

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB Liability (Asset) (a)-(b)
<b>Balances as of September 30, 2017</b>	<b>\$ 4,782,631</b>	<b>\$ 4,334,285</b>	<b>\$ 448,346</b>
Changes for the Year			
Service cost (beginning of year)	42,239	-	42,239
Interest	213,452	-	213,452
Experience (gains)/losses	(3,768)	-	(3,768)
Changes in actuarial assumptions	(843,460)	-	(843,460)
Contributions to OPEB trust		300,000	(300,000)
Contributions/benefit paid from general operating funds		287,798	(287,798)
Net investment income	-	330,941	(330,941)
Benefit payments, including refunds of employee contributions	(287,798)	(287,798)	-
Administrative expense	-	(43,389)	43,389
<b>Total changes</b>	<b>(879,335)</b>	<b>587,552</b>	<b>(1,466,887)</b>
<b>Balances as of September 30, 2018</b>	<b>\$ 3,903,296</b>	<b>\$ 4,921,837</b>	<b>\$ (1,018,541)</b>

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate

The following presents the net OPEB asset of the Road Commission, as well as what the Road Commission's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage point lower (5.73 percent) and 1-percentage point higher (7.73 percent) than the current discount rate:

	1% Decrease 5.73%	Current Discount 6.73%	1% Increase 7.73%
Net OPEB asset	\$ 642,537	\$ 1,018,541	\$ 1,321,192

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB asset of the Road Commission, as well as what the Road Commission's net OPEB asset would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (7.00 percent decreasing to 4.00 percent) and 1-percentage point higher (9.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease	Current Rates	1% Increase
Net OPEB asset	\$ 1,069,674	\$ 1,018,541	\$ 966,120

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE H: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Road Commission recognized OPEB expense of (\$145,125). As of September 30, 2018, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net differences between expected and actual experience	\$ -	\$ 3,110
Changes in assumptions	-	696,259
Net difference between projected and actual investments		
Earnings on OPEB plan investments	-	304,049
Total	<u>\$ -</u>	<u>\$ 1,003,418</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ending September 30,</b>	<b>Amount Recognized</b>
2019	\$ (240,711)
2020	(240,711)
2021	(240,713)
2022	(173,350)
2023	(107,933)

**NOTE I: CONTINGENT LIABILITIES**

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, the Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE J: 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 the 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.

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 the 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.

**NOTE K: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In November 2016, the GASB announced Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018-2019 fiscal year.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement will increase the usefulness of government's financial statements by requiring recognition of certain leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Payments*. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018-2019 fiscal year.

Eaton County Road Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

**NOTE L: COMMITMENTS**

The Road Commission has entered into various contracts totaling approximately \$1.9 million for a variety of maintenance and improvement projects. Future revenues are expected to be sufficient to pay off these commitments.

**REQUIRED SUPPLEMENTARY INFORMATION**

Eaton County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - REVENUES

Year Ended September 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property taxes	\$ 4,096,067	\$ 4,088,461	\$ 4,088,338	\$ (123)
Licenses and permits				
Permits	75,000	90,000	91,186	1,186
Intergovernmental				
Federal sources				
Surface Transportation Program	491,000	184,446	184,446	-
Congestion Mitigation and Air Quality Transportation Alternatives Program	215,000	-	-	-
Bridge	305,000	-	-	-
Bridge	436,350	47,687	47,687	-
State sources				
Motor Vehicle Highway Funds	11,197,314	11,197,314	11,766,271	568,957
Economic Development Fund				
Rural primary	-	11,780	11,780	-
Other				
Critical bridge	15,000	383,941	363,847	(20,094)
Other	-	860,260	860,260	-
Local sources				
City and village contributions	-	20,838	24,030	3,192
Township contributions	620,000	202,519	196,958	(5,561)
Total intergovernmental	13,279,664	12,908,785	13,455,279	546,494
Interest	60,000	170,000	174,555	4,555
Other	100,000	75,000	72,985	(2,015)
TOTAL REVENUES	<u>\$ 17,610,731</u>	<u>\$ 17,332,246</u>	<u>\$ 17,882,343</u>	<u>\$ 550,097</u>

Eaton County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES

Year Ended September 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
<b>EXPENDITURES</b>				
Current				
Primary road				
Preservation - structural improvements	\$ 3,702,300	\$ 3,558,500	\$ 3,647,030	\$ (88,530)
Routine and preventative maintenance	4,266,250	3,702,500	3,253,133	449,367
Total primary road	7,968,550	7,261,000	6,900,163	360,837
Local road				
Preservation - structural improvements	4,729,067	5,252,500	4,867,992	384,508
Routine and preventative maintenance	3,000,000	2,800,000	2,814,074	(14,074)
Total local road	7,729,067	8,052,500	7,682,066	370,434
Administrative - net	850,000	700,000	761,273	(61,273)
Equipment				
Direct	800,000	850,000	870,964	(20,964)
Indirect	1,100,000	1,300,000	1,217,999	82,001
Operating	200,000	300,000	293,139	6,861
Less: Equipment rental	(2,100,000)	(2,100,000)	(2,173,791)	73,791
Total equipment - net	-	350,000	208,311	141,689
Other expense	400,000	376,584	371,209	5,375
Non-road projects	-	500	307	193
Capital outlay				
Capital outlay	1,007,600	422,645	532,543	(109,898)
Less:				
Equipment retirements	-	(1,056)	(863)	(193)
Depreciation and depletion	(500,000)	(630,000)	(630,258)	258
Total capital outlay - net	507,600	(208,411)	(98,578)	(109,833)
Debt service				
Principal payments	510,000	510,000	510,000	-
Interest payments	6,171	6,086	6,085	1
Total debt service	516,171	516,086	516,085	1
<b>TOTAL EXPENDITURES</b>	<b>\$ 17,971,388</b>	<b>\$ 17,048,259</b>	<b>\$ 16,340,836</b>	<b>\$ 707,423</b>

Eaton County Road Commission

SCHEDULE OF CHANGES IN NET OPEB LIABILITY (ASSET) AND RELATED RATIOS

Last Two Measurement Dates (Ultimately ten years will be displayed)

(Amounts were determined as of 9/30 of each year)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 42,239	\$ 40,396
Interest	213,452	214,454
Difference between expected and actual experience	(3,768)	-
Change of assumptions	(843,460)	-
Benefit payments, including employee refunds	<u>(287,798)</u>	<u>(269,549)</u>
Net change in total OPEB liability	(879,335)	(14,699)
Total OPEB liability, beginning	<u>4,782,631</u>	<u>4,797,330</u>
Total OPEB liability, ending	<u><u>\$ 3,903,296</u></u>	<u><u>\$ 4,782,631</u></u>
Plan fiduciary net position		
Contributions/benefits paid from general operating fund	\$ 587,798	\$ 269,549
Benefit payments made from general operating funds	(287,798)	(269,549)
Net investment income	330,941	506,104
Administrative expenses	<u>(43,389)</u>	<u>(38,049)</u>
Net change in plan fiduciary net position	587,552	468,055
Plan fiduciary net position, beginning	<u>4,334,285</u>	<u>3,866,230</u>
Plan fiduciary net position, ending	<u><u>\$ 4,921,837</u></u>	<u><u>\$ 4,334,285</u></u>
Net OPEB liability (asset)	<u><u>\$ (1,018,541)</u></u>	<u><u>\$ 448,346</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	126.10%	90.63%
Covered employee payroll	\$ 2,017,244	\$ 1,981,402
Net OPEB liability (asset) as a percentage of covered employee payroll	-50.49%	22.63%

Eaton County Road Commission

SCHEDULE OF CONTRIBUTIONS

Last Two Fiscal Years (Ultimately ten fiscal years will be displayed)

(Amounts were determined as of 9/30 of each fiscal year)

	<u>2018</u>	<u>2017</u>
Actuarial determined contributions	\$ 17,085	\$ 121,673
Contributions in relation to the actuarially determined contribution	<u>587,798</u>	<u>269,549</u>
Contribution deficiency (excess)	<u>\$ (570,713)</u>	<u>\$ (147,876)</u>
Covered employee payroll	\$ 2,017,244	\$ 1,981,402
Contributions as a percentage of covered employee payroll	29.14%	13.60%

Methods and assumptions used to determine contribution rates:

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017 using the alternative measurement method and rolled forward to the measurement date. The total OPEB liability was calculated based on the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date: September 30, 2017

Measurement date: September 30, 2018

Actuarial cost method: Entry age normal

Actuarial valuation method: Equal to market value of assets

Discount rate: 6.73%

Inflation: Included in investment rate of return

Salary increases: 2.00%

Investment rate of return: 6.73% including inflation

Healthcare cost trend rates: Pre-65 - 8.00% graded to 5.00% over 6 years; Medicare eligible - 5% in all years; Dental and Vision: 4.00%

Mortality: As set forth in IRS Regulations for 2018 (1.430(h)(3)), separately for males and females as well as annuitants and non-annuitants. Based on the RP-2000 Tables with Scale AA.

Eaton County Road Commission

SCHEDULE OF INVESTMENT RETURNS

Retired Employees Healthcare Plan

Last Two Fiscal Years (Ultimately ten fiscal years will be displayed)

Year Ended September 30

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expenses	7.15%	8.54%

Eaton County Road Commission

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended September 30, 2018

**NOTE A: OTHER POST-EMPLOYMENT BENEFITS**

Changes to benefits terms: There were no changes to benefit terms during plan year 2018.

Changes in assumptions: The discount rate was increased from 4.56% to 6.73% during plan year 2018.

**NOTE B: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

During the year the Road Commission incurred expenditures which were in excess of the amounts budgeted as follows:

	<u>Amounts Appropriated</u>	<u>Actual Amounts Expended</u>	<u>Variance</u>
Primary road			
Preservation - structural improvements	\$ 3,558,500	\$ 3,647,030	\$ 88,530
Local road			
Routine and preventative maintenance	2,800,000	2,814,074	14,074
Administrative - net	700,000	761,273	61,273
Capital outlay - net	(208,411)	(98,578)	109,833

Available revenues and under spending in other functional categories were used to offset over expenditures in the general operating fund.

## **OTHER SUPPLEMENTARY INFORMATION**

Eaton County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended September 30, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 9,973,532	\$ 7,651,867	\$ 256,944	\$ 17,882,343
TOTAL EXPENDITURES	<u>7,770,249</u>	<u>8,267,347</u>	<u>303,240</u>	<u>16,340,836</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,203,283	(615,480)	(46,296)	1,541,507
OTHER FINANCING SOURCES (USES)				
Optional transfers in (out)	<u>(615,480)</u>	<u>615,480</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	1,587,803	-	(46,296)	1,541,507
Fund balance, beginning of year	<u>6,164,613</u>	<u>-</u>	<u>1,065,271</u>	<u>7,229,884</u>
Fund balance, end of year	<u>\$ 7,752,416</u>	<u>\$ -</u>	<u>\$ 1,018,975</u>	<u>\$ 8,771,391</u>

Eaton County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended September 30, 2018

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
REVENUES				
Taxes				
Property taxes	\$ -	\$ 4,088,338	\$ -	\$ 4,088,338
Licenses and permits				
Permits	-	-	91,186	91,186
Intergovernmental				
Federal sources	184,446	47,687	-	232,133
State sources	9,526,583	3,475,575	-	13,002,158
Local sources	<u>113,667</u>	<u>39,817</u>	<u>67,504</u>	<u>220,988</u>
Total intergovernmental	9,824,696	3,563,079	67,504	13,455,279
Interest	148,836	-	25,719	174,555
Other	<u>-</u>	<u>450</u>	<u>72,535</u>	<u>72,985</u>
TOTAL REVENUES	<u>\$ 9,973,532</u>	<u>\$ 7,651,867</u>	<u>\$ 256,944</u>	<u>\$ 17,882,343</u>

Eaton County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended September 30, 2018

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
EXPENDITURES				
Preservation - structural improvements	\$ 3,647,030	\$ 4,867,992	\$ -	\$ 8,515,022
Routine and preventative maintenance	3,253,133	2,814,074	-	6,067,207
Administrative expense - net	360,227	401,046	-	761,273
Equipment expense - net	70,068	97,961	40,282	208,311
Non-road projects	307	-	-	307
Capital outlay - net	-	-	(98,578)	(98,578)
Debt service	-	-	516,085	516,085
Other	439,484	86,274	(154,549)	371,209
	<u>439,484</u>	<u>86,274</u>	<u>(154,549)</u>	<u>371,209</u>
TOTAL EXPENDITURES	<u>\$ 7,770,249</u>	<u>\$ 8,267,347</u>	<u>\$ 303,240</u>	<u>\$ 16,340,836</u>