

Eaton County
Road Commission



Year Ended
September 30,
2012

Financial
Statements

EATON COUNTY ROAD COMMISSION

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INDEPENDENT AUDITORS' REPORT

January 18, 2013

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of the *Eaton County Road Commission*, a component unit of Eaton County, Michigan, as of and for the year ended September 30, 2012, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Eaton County Road Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 remaining fund information of the Eaton County Road Commission as of September 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the Schedule of Funding Progress For Retired Employees Healthcare Plan as noted 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.

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 schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Eaton County Road Commission. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

EATON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

As management of the Eaton County Road Commission (“the 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, 2012.

Financial Highlights

The Eaton County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end September 30, 2003.

Net assets, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Commission's Net Asset chart, the Road Commission’s assets exceeded liabilities by \$76,449,862 at the end of the fiscal year. There was an increase of \$1,442,034 in net assets during 2012.

The general operating fund had an increase in fund balance for the year of \$681,327. Total fund balance is \$4,969,120.

The Road Commission issued no new debt in 2012 and made total scheduled principal payments on debt amounting to \$500,000.

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 assets and general fund balance sheet on a single page and the statement of activities and general 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 assets* presents information on all of the Commission’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of the Commission’s overall fiscal position.

The *statement of activities* presents information showing how the Commission’s net assets changed during the most recent fiscal period. All changes in net assets 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 component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Eaton County.

EATON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

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

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 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 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 general fund is narrower than that of the government-wide financial statements it is useful to compare the information presented for the general 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 general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balance for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

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

The Commission does not maintain proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the 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 Assets

	2012	2011
Current and other assets	\$ 6,891,092	\$ 5,401,912
Capital assets	<u>73,676,010</u>	<u>73,905,228</u>
Total assets	<u>80,567,102</u>	<u>79,307,140</u>
Long-term liabilities outstanding	3,330,903	3,816,514
Other liabilities	<u>786,337</u>	<u>482,798</u>
Total liabilities	<u>4,117,240</u>	<u>4,299,312</u>
Net assets		
Invested in capital assets	70,656,010	70,385,228
Unrestricted	<u>5,793,852</u>	<u>4,622,600</u>
Total net assets	<u>\$76,449,862</u>	<u>\$75,007,828</u>

Condensed Statement of Activities

	2012	2011
Revenues:		
Federal sources	\$ 2,660,381	\$ 1,800,508
State sources	7,804,960	7,553,380
Local sources	922,670	420,981
Other	<u>113,240</u>	<u>169,501</u>
Total revenues	<u>11,501,251</u>	<u>9,944,370</u>
Expenses:		
Public works	9,933,379	10,414,490
Debt service - interest only	<u>125,838</u>	<u>142,191</u>
Total expenses	<u>10,059,217</u>	<u>10,556,681</u>
Increase (decrease) in net assets	1,442,034	(612,311)
Net assets, beginning of year	<u>75,007,828</u>	<u>75,620,139</u>
Net assets, end of year	<u>\$76,449,862</u>	<u>\$75,007,828</u>

EATON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased the Commission's net assets by \$1,442,034 during fiscal year 2012. This decrease in net assets is primarily due to results of operations at the fund level, combined with the reduction of bonds payable of \$500,000.

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, 2012 was \$4,969,120, compared to \$4,287,793 at September 30, 2011, and was comprised of four components. One component is nonspendable to indicate that it was not available for spending because it has already been committed to inventory purchases, which is included as a fund asset. The nonspendable fund balance was \$430,469 as of September 30, 2012. Two components are considered restricted because state laws require certain funds to be spent on roads. The restricted fund balances for primary and local roads were \$3,530,410 and \$31,118 respectively at September 30, 2012. The remaining fund balance, and the fourth component of the Road Commission's fund balance, is considered unassigned. The unassigned fund balance at September 30, 2012 was \$977,123.

Overall, there was an increase in total fund balance of \$681,327 for 2012 due to ongoing 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 2012 budget reflecting a decrease in revenue sources, (primarily federal) by approximately \$3,600,000, and a decrease in expenditures of approximately \$4,500,000.

Capital Assets and Debt Administration

Capital Assets

Capital assets in total, net of accumulated depreciation, decreased from \$73,905,228 to \$73,676,010 due primarily to depreciation expense exceeding capital additions. 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

In 2012, long term debt was decreased by \$500,000 for payments of scheduled principal on existing bonds. Long-term debt at September 30, 2012 also included a compensated absences component amounting to \$310,903, which consists of accumulated vacation and sick leave (at 50%) which is earned but not yet paid. Total bonded long-term debt was \$3,020,000 at September 30, 2012. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 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

During fiscal year 2013, we do not anticipate an increase in MTF funds due to the stagnant Michigan economy and the reduced weight and gas taxes received for distribution. The higher fuel and utility costs, as well as significant increases in raw materials and equipment, will continue to impact Commission resources.

Also, the reduction in revenue sharing to townships has resulted in less revenue available for township contributions to the Road Commission.

Several road and bridge projects are planned for 2013 which will increase revenues from federal and local sources as well as the related expenses.

Requests for Information

This financial report is designed to provide a general overview of 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 Assets and Governmental Fund Balance Sheet September 30, 2012

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and interest bearing deposits	\$ 3,469,941	\$ -	\$ 3,469,941
Accounts receivable:			
Motor vehicle highway funds	1,297,364	-	1,297,364
Township road agreements	302,227	-	302,227
Special assessments	223,219	-	223,219
Other	236,864	-	236,864
Inventories:			
Road materials	267,170	-	267,170
Equipment material and parts	163,299	-	163,299
Net other post employment benefits asset	-	931,008	931,008
Capital assets:			
Assets not being depreciated	-	24,304,164	24,304,164
Assets being depreciated, net	-	49,371,846	49,371,846
Total assets	\$ 5,960,084	74,607,018	80,567,102
Liabilities			
Accounts payable	\$ 657,808	-	657,808
Accrued liabilities	109,937	-	109,937
Accrued interest payable	-	18,592	18,592
Deferred revenue	223,219	(223,219)	-
Long-term liabilities:			
Due within one year	-	531,090	531,090
Due after one year	-	2,799,813	2,799,813
Total liabilities	990,964	3,126,276	4,117,240
Fund balance			
Nonspendable - inventory	430,469	(430,469)	-
Restricted for primary roads	3,530,410	(3,530,410)	-
Restricted for local roads	31,118	(31,118)	-
Unassigned	977,123	(977,123)	-
Total fund balance	4,969,120	(4,969,120)	-
Total liabilities and fund balance	\$ 5,960,084		
Net assets			
Invested in capital assets, net of related debt		70,656,010	70,656,010
Unrestricted		5,793,852	5,793,852
Total net assets		\$ 76,449,862	\$ 76,449,862

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

EATON COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet

to Statement of Net Assets

September 30, 2012

Fund balance - general fund	\$ 4,969,120
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in <i>governmental activities</i> are not financial resources and therefore are not reported in the funds.	73,676,010
Other long-term assets are not available to pay for current-period expenditures and therefore are not recorded in the funds.	
Long-term special assessments receivable included in deferred revenue	223,219
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(3,020,000)
Certain liabilities, such as compensated absences and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences payable	(310,903)
Accrued interest payable	(18,592)
Net other postemployment benefits asset	931,008
Net assets of governmental activities	<u>\$ 76,449,862</u>

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

EATON COUNTY ROAD COMMISSION

Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2012

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Current:			
Public works	\$ 10,191,274	\$ (257,895)	\$ 9,933,379
Debt service:			
Principal	500,000	(500,000)	-
Interest	128,650	(2,812)	125,838
Total expenditures/expenses	<u>10,819,924</u>	<u>(760,707)</u>	<u>10,059,217</u>
Program revenues			
Charges for services	1,035,532	-	1,035,532
Operating grants and contributions	7,545,228	-	7,545,228
Capital grants and contributions	2,920,113	-	2,920,113
Total program revenues	<u>11,500,873</u>	<u>-</u>	<u>11,500,873</u>
Net program revenues			1,441,656
General revenues			
Interest earned	<u>378</u>	<u>-</u>	<u>378</u>
Net change in fund balance	681,327	(681,327)	
Changes in net assets		1,442,034	1,442,034
Fund balance/net assets, beginning of year	<u>4,287,793</u>	<u>70,720,035</u>	<u>75,007,828</u>
Fund balance/net assets, end of year	<u>\$ 4,969,120</u>	<u>\$ 71,480,742</u>	<u>\$ 76,449,862</u>

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

EATON COUNTY ROAD COMMISSION

Reconciliation of General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities For the Year Ended September 30, 2012

Change in net assets - general fund	\$ 681,327
<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>	
Capital outlay additions not being depreciated	816,336
Capital outlay additions being depreciated	3,531,674
Depreciation expense	(4,576,270)
Loss on disposition of capital assets	(958)
<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>	
Deferred long-term special assessments receivable	223,219
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the funds but not in the statement of activities:</p>	
Principal payments	500,000
<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	(14,389)
Change in accrued interest	2,812
Change in net OPEB asset	278,283
	278,283
Change in net assets of governmental activities	\$ 1,442,034

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, 2012

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Permits	\$ 65,000	\$ 57,500	\$ 60,420	\$ 2,920
Intergovernmental:				
Federal sources	6,223,063	2,662,606	2,660,381	(2,225)
State sources	7,369,451	7,854,254	7,804,960	(49,294)
Local sources	1,187,323	691,677	922,670	230,993
Interest and rentals	300	380	378	(2)
Other	141,000	45,000	52,442	7,442
Total revenues	14,986,137	11,311,417	11,501,251	189,834
Expenditures				
Current:				
Construction	3,712,000	3,300,000	3,235,177	(64,823)
Preservation/structural improvements	1,268,650	178,150	152,936	(25,214)
Local heavy maintenance	1,836,192	900,000	883,973	(16,027)
Primary maintenance	3,806,000	3,215,000	3,070,275	(144,725)
Local maintenance	2,130,000	2,110,000	2,053,133	(56,867)
Equipment - net	75,000	(200,000)	(221,937)	(21,937)
Administrative - net	900,000	900,000	807,855	(92,145)
Capital outlay - net	532,500	(205,188)	(203,257)	1,931
Debt service	628,650	628,650	628,650	-
Other	900,000	436,554	413,119	(23,435)
Total expenditures	15,788,992	11,263,166	10,819,924	(443,242)
Net change in fund balance	(802,855)	48,251	681,327	633,076
Fund balance, beginning of year	4,287,793	4,287,793	4,287,793	-
Fund balance, end of year	\$ 3,484,938	\$ 4,336,044	\$ 4,969,120	\$ 633,076

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

EATON COUNTY ROAD COMMISSION

Statement of Fiduciary Net Assets
September 30, 2012

	Employee Health Care Benefit Trust
Assets	
Investments, at fair value	
Mutual funds	<u>\$ 1,846,524</u>
Net assets held in trust for retiree health	<u><u>\$ 1,846,524</u></u>

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

EATON COUNTY ROAD COMMISSION

Statement of Changes in Fiduciary Net Assets For the Year Ended September 30, 2012

	Employee Health Care Benefit Trust
Additions	
Contributions:	
Employer	\$ 513,825
Investment income:	
Net increase in fair value of investments	<u>280,341</u>
Total additions	794,166
Deductions	
Benefit payments	(213,825)
Administration	<u>(15,151)</u>
Total deductions	(228,976)
Change in net assets	565,190
Net assets held in trust for retiree health, beginning of the year	<u>1,281,334</u>
End of the year	<u><u>\$ 1,846,524</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 “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 Commission, is a discrete component unit of the County of Eaton, Michigan. The Commission was established pursuant to the county road law (MCL 224.1), and is governed by a four member (three member effective January 1, 2013) 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 1,171 miles of local and primary roads.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, 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 assets 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements (statement of net assets 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.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) 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.

The government reports the following major governmental funds:

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

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

Assets, liabilities 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.

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 Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - for the general fund.

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

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

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.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items), are reported in the government-wide statements (statement of net assets and statement of changes in net assets). 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.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

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.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

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

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. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

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.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

2. CASH DEPOSITS AND INVESTMENTS

Deposits

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

Statement of Net Assets -	
Cash and cash equivalents	\$ 3,469,941
Statement of Fiduciary Net Assets -	
Employee Health Care Benefit Trust Fund:	
Investments	<u>1,846,524</u>
Total	<u>\$ 5,316,465</u>

At September 30, 2012, the amount of the Road Commission's deposits were as follows:

	Carrying Amount	Bank Balance
Petty cash	\$ 250	\$ -
Checking account	30,982	106,832
Held by Eaton County - bank money markets	<u>3,438,709</u>	<u>3,438,177</u>
	<u>\$ 3,469,941</u>	<u>\$ 3,545,009</u>

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.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

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, 2012, the Road Commission has invested \$1,846,524 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, 2012, the entire \$106,832 of the Road Commission's bank balance was insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$3,438,177 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 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, 2012 were in an external investment pool.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

3. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 243,002	\$ -	\$ -	\$ 243,002
Land improvements - right of ways	758,941	7,535	-	766,476
Land improvements - infrastructure	22,485,885	808,801	-	23,294,686
Total capital assets not being depreciated	23,487,828	816,336	-	24,304,164
Capital assets being depreciated:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	6,481,922	-	-	6,481,922
Equipment:				
Road	5,744,930	79,583	64,244	5,760,269
Shop	78,450	6,373	-	84,823
Office	303,374	-	-	303,374
Engineering	126,518	-	-	126,518
Yard and storage	562,818	-	-	562,818
Infrastructure - roads	71,439,581	3,182,032	2,134,223	72,487,390
Infrastructure - bridges	19,590,638	185,526	-	19,776,164
Infrastructure - traffic signals	1,345,000	78,160	-	1,423,160
Total capital assets being depreciated	105,723,790	3,531,674	2,198,467	107,056,997
Less accumulated depreciation and depletion for:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	1,620,905	129,356	-	1,750,261
Equipment:				
Road	5,374,680	144,023	63,286	5,455,417
Shop	78,449	1,062	-	79,511
Office	285,384	6,826	-	292,210
Engineering	125,488	1,028	-	126,516
Yard and storage	525,867	6,270	-	532,137
Infrastructure - roads	39,075,052	3,791,994	2,134,223	40,732,823
Infrastructure - bridges	7,437,339	406,044	-	7,843,383
Infrastructure - traffic signals	732,667	89,667	-	822,334
Total accumulated depreciation and depletion	55,306,390	4,576,270	2,197,509	57,685,151
Total assets being depreciated, net	50,417,400	(1,044,596)	958	49,371,846
Governmental activities capital assets, net	\$ 73,905,228	\$ (228,260)	\$ 958	\$ 73,676,010

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

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 Bonds - 2003	\$ 3,520,000	\$ -	\$ 500,000	\$ 3,020,000	\$ 500,000
Compensated absences	296,514	172,678	158,289	310,903	31,090
	<u>\$ 3,816,514</u>	<u>\$ 172,678</u>	<u>\$ 658,289</u>	<u>\$ 3,330,903</u>	<u>\$ 531,090</u>

MTF Bonds

The County of Eaton issued \$5,500,000 of Michigan Transportation Fund Bonds, Series 2003 on July 1, 2003 pursuant to the provisions of Act 51, Public Acts of Michigan of 1951, as amended for the purpose of 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.

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, 2012, excluding sick and vacation leave payable, is as follows:

Years Ending September 30,	MTF Bonds		
	Principal	Interest	Total
2013	\$ 500,000	\$ 111,550	\$ 611,550
2014	500,000	94,675	594,675
2015	500,000	77,425	577,425
2016	500,000	59,300	559,300
2017	500,000	40,300	540,300
2018	520,000	20,800	540,800
Total	<u>\$ 3,020,000</u>	<u>\$ 404,050</u>	<u>\$ 3,424,050</u>

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

5. DEFINED CONTRIBUTION PENSION PLAN

The 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 \$192,140 for the year ended September 30, 2012.

6. RISK MANAGEMENT

The 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.

Also, the 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 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 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.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

8. ECONOMIC DEPENDENCY

The 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. 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. All retirees who retire after March 1, 1994 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, 2012, the Road Commission contributed \$513,825 to the Plan.

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	-
Adjustment to annual required contribution	-
	<hr/>
Net OPEB cost (expense)	235,542
Contributions made	(513,825)
	<hr/>
Increase in net OPEB asset	(278,283)
Net OPEB liability (asset), beginning of year	(652,725)
	<hr/>
Net OPEB liability (asset), end of year	<u>\$ (931,008)</u>

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2012, was as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Contribution	Net OPEB Obligation (Asset)
9/30/2010	\$ 215,084	269%	\$ (329,324)
9/30/2011	230,483	240%	(652,725)
9/30/2012	235,542	218%	(931,008)

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.

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.

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, 2012, was twenty seven years.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

10. INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

Invested in capital assets, net of related debt includes the book value of capital assets, or \$73,676,010, less related debt used to finance those assets of \$3,020,000, for a net amount of \$70,656,010.



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
2010	\$ 231,132	271.0%
2011	231,132	239.6%
2012	235,542	218.1%

OPERATING FUND SCHEDULES

EATON COUNTY ROAD COMMISSION

Detail Schedule of Revenues - Budget and Actual

General Operating Fund

For the Year Ended September 30, 2012

	Amended Budget	Actual	Variance
Permits	\$ 57,500	\$ 60,420	\$ 2,920
Federal sources:			
Bridge	100,000	95,461	(4,539)
D funds	33,287	33,287	-
Surface transportation program and congestion	2,500,000	2,502,314	2,314
Other	29,319	29,319	-
Total federal sources	<u>2,662,606</u>	<u>2,660,381</u>	<u>(2,225)</u>
State sources:			
Motor vehicle highway funds - Act 51:			
Engineering	10,000	10,000	-
Primary roads allocation	4,350,000	4,431,741	81,741
Local roads allocation	2,000,000	1,993,109	(6,891)
Primary urban roads	900,000	877,044	(22,956)
Local urban roads	240,000	233,334	(6,666)
Other	354,254	259,732	(94,522)
Total state sources	<u>7,854,254</u>	<u>7,804,960</u>	<u>(49,294)</u>
Local sources			
Local unit contributions	<u>691,677</u>	<u>922,670</u>	<u>230,993</u>
Interest and rentals	<u>380</u>	<u>378</u>	<u>(2)</u>
Other:			
Sundry refunds	39,748	37,837	(1,911)
Other	5,252	14,605	9,353
Total other	<u>45,000</u>	<u>52,442</u>	<u>7,442</u>
Total revenues	<u>\$ 11,311,417</u>	<u>\$ 11,501,251</u>	<u>\$ 189,834</u>

EATON COUNTY ROAD COMMISSION

Detail Schedule of Expenditures - Budget and Actual

General Operating Fund

For the Year Ended September 30, 2012

	Amended Budget	Actual	Variance
Construction			
Primary roads	\$ 3,300,000	\$ 3,235,177	\$ (64,823)
Preservation - structural improvements			
Primary roads and structures	178,150	152,936	(25,214)
Local roads and structures	900,000	883,973	(16,027)
Total preservation - structural improvements	1,078,150	1,036,909	(41,241)
Routine and preventative maintenance:			
Primary roads and structures, winter and traffic control	3,215,000	3,070,275	(144,725)
Local roads and structures, winter and traffic control	2,110,000	2,053,133	(56,867)
Total maintenance	5,325,000	5,123,408	(201,592)
Equipment:			
Direct	500,000	482,109	(17,891)
Indirect	900,000	876,451	(23,549)
Operating	350,000	340,141	(9,859)
Less: equipment rental	(1,950,000)	(1,920,638)	29,362
Total equipment, net	(200,000)	(221,937)	(21,937)
Administrative:			
Administration	900,000	807,855	(92,145)
Capital outlay:			
Land improvements, building and equipment	85,512	86,274	762
Less: Depreciation	(289,700)	(288,565)	1,135
Retirements	(1,000)	(966)	34
Total capital outlay, net	(205,188)	(203,257)	1,931
Debt service:			
Principal retirement	500,000	500,000	-
Interest and fiscal charges	128,650	128,650	-
Total debt service	628,650	628,650	-
Other:			
Other	436,554	413,119	(23,435)
Total expenditures	\$ 11,263,166	\$ 10,819,924	\$ (443,242)

EATON COUNTY ROAD COMMISSION

Schedule of Revenues, Expenditures and Changes in Fund Balances For the Year Ended September 30, 2012

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Revenues				
Permits	\$ -	\$ -	\$ 60,420	\$ 60,420
Intergovernmental:				
Federal sources	2,573,570	86,811	-	2,660,381
State sources	5,558,957	2,246,003	-	7,804,960
Local sources	387,020	476,412	59,238	922,670
Interest and rentals	270	1	107	378
Other	-	13,131	39,311	52,442
Total revenues	8,519,817	2,822,358	159,076	11,501,251
Expenditures				
Construction	3,235,177	-	-	3,235,177
Preservation - structural improvements	152,936	883,973	-	1,036,909
Maintenance	3,070,275	2,053,133	-	5,123,408
Equipment - net	(57,035)	(89,865)	(75,037)	(221,937)
Administrative - net	555,313	252,542	-	807,855
Capital outlay - net	-	-	(203,257)	(203,257)
Debt principal	-	-	500,000	500,000
Interest and fiscal charges	-	-	128,650	128,650
Other	62,229	297,955	52,935	413,119
Total expenditures	7,018,895	3,397,738	403,291	10,819,924
Revenues over (under) expenditures	1,500,922	(575,380)	(244,215)	681,327
Internal transfers	(600,000)	600,000	-	-
Net change in fund balance	900,922	24,620	(244,215)	681,327
Fund balance, beginning of year	3,059,957	6,498	1,221,338	4,287,793
Fund balance, end of year	\$ 3,960,879	\$ 31,118	\$ 977,123	\$ 4,969,120

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*

January 18, 2013

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

We have audited the financial statements of the governmental activities, the major fund, and the fiduciary fund of the *Eaton County Road Commission*, as of and for the year ended September 30, 2012, and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Eaton County Road Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Eaton County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, the Board of County Road Commissioners, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Lobson". The signature is written in a cursive, flowing style.