

Eaton County
Road Commission



Year Ended
September 30,
2013

Financial
Statements

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EATON COUNTY ROAD COMMISSION

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INDEPENDENT AUDITORS' REPORT

February 7, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the fiduciary fund information of the *Eaton County Road Commission* (the "Commission"), a component unit of Eaton County, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission'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 fiduciary fund information of the Eaton County Road Commission as of September 30, 2013, 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.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014, on our consideration of the Eaton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Rehmann Robson LLC

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 Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended September 30, 2013.

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 position, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Commission's net position chart, the Commission's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$76,741,161 at the end of the fiscal year. There was an increase of \$291,299 in net position during 2013.

The general operating fund had an increase in fund balance for the year of \$799,574. Total fund balance is \$5,768,694.

A new MTF refunding bond in the amount of \$2,595,000 to refund \$2,520,000 of the 2003 MTF bond was issued.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the 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 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 position* presents information on all of the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of the Commission's overall fiscal position.

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

The 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 Position

	2013	2012
Current and other assets	\$ 7,915,782	\$ 6,891,092
Capital assets	<u>72,475,877</u>	<u>73,676,010</u>
Total assets	<u>80,391,659</u>	<u>80,567,102</u>
Deferred outflows of resources	<u>62,500</u>	<u>-</u>
Long-term liabilities outstanding	2,909,312	3,330,903
Other liabilities	<u>803,686</u>	<u>786,337</u>
Total liabilities	<u>3,712,998</u>	<u>4,117,240</u>
Net position		
Net investment in capital assets	69,880,877	70,656,010
Unrestricted	<u>6,860,284</u>	<u>5,793,852</u>
Total net position	<u>\$76,741,161</u>	<u>\$76,449,862</u>

Condensed Statement of Activities

	2013	2012
Revenues:		
Federal sources	\$ 1,614,966	\$ 2,660,381
State sources	7,943,548	7,804,960
Local sources	792,356	922,670
Other	<u>262,616</u>	<u>113,240</u>
Total revenues	<u>10,613,486</u>	<u>11,501,251</u>
Expenses:		
Public works	10,247,890	9,933,379
Debt service - interest only	<u>74,297</u>	<u>125,838</u>
Total expenses	<u>10,322,187</u>	<u>10,059,217</u>
Increase in net position	291,299	1,442,034
Net position, beginning of year	<u>76,449,862</u>	<u>75,007,828</u>
Net position, end of year	<u>\$76,741,161</u>	<u>\$76,449,862</u>

EATON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased the Commission's net position by \$291,299 during fiscal year 2013. This increase in net position is primarily due to results of operations at the fund level.

Fund Level Financial Statements

Beginning with the year ended September 30, 2011, the 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, 2013 was \$5,768,694, compared to \$4,969,120 at September 30, 2012, 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 and prepaid expenses, which are included as fund assets. The nonspendable fund balance was \$465,688 as of September 30, 2013. 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 \$4,485,112 and \$38,067 respectively at September 30, 2013. The remaining fund balance, and the fourth component of the Commission's fund balance, is considered unassigned. The unassigned fund balance at September 30, 2013 was \$779,827.

Overall, there was an increase in total fund balance of \$799,574 for 2013 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 Commission amended its FY 2013 budget reflecting a decrease in revenue sources, (primarily federal) by approximately \$2,300,000, and a decrease in expenditures of approximately \$2,500,000.

Capital Assets and Debt Administration

Capital Assets

Capital assets in total, net of accumulated depreciation, decreased from \$73,676,010 to \$72,475,877 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 2013, Eaton County issued Michigan Transportation Fund Refunding Bonds to refund its previously issued Michigan Transportation Fund Bonds, Series 2003 dated July 1, 2003. The 2013 bond issue generated new long-term debt of \$2,595,000 for the purpose of refunding the remaining principal on the 2003 bonds of \$2,520,000. Long-term debt at September 30, 2013 also included a compensated absences component amounting to \$314,312, which consists of accumulated vacation and sick leave (at 50%) which is earned but not yet paid. Total bonded long-term debt was \$2,595,000 at September 30, 2013. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds but not in the statement of activities. More detailed information of long-term debt can be found in the notes to the financial statements.

EATON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Economic Factors and Road Fund Budgetary Highlights

For the fiscal year 2014, we anticipate only a slight increase in MTF funds based on trends over the past several years. Higher fuel and utility costs, raw materials and equipment, as well as increases in fringe benefits will continue to impact Commission resources.

Reductions in revenue sharing to townships in recent years have also resulted in less revenue available for contributions to local road projects.

Several road and bridge projects are planned for 2014 which will result in increased revenues from federal sources with a corresponding increase in related expenses.

The Commission's road maintenance budget is sensitive to weather conditions and unfavorable conditions during the 2014 winter season will likely have a budgetary impact.

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 Position and Governmental Fund Balance Sheet September 30, 2013

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and interest bearing deposits	\$ 4,424,117	\$ -	\$ 4,424,117
Accounts receivable:			
Motor vehicle highway funds	1,298,971	-	1,298,971
Township road agreements	295,474	-	295,474
Special assessments	143,911	-	143,911
Other	81,856	-	81,856
Inventories:			
Road materials	264,272	-	264,272
Equipment material and parts	170,844	-	170,844
Prepaid items	30,572	-	30,572
Net other post employment benefits asset	-	1,205,765	1,205,765
Capital assets:			
Assets not being depreciated	-	24,409,449	24,409,449
Assets being depreciated, net	-	48,066,428	48,066,428
Total assets	\$ 6,710,017	73,681,642	80,391,659
Deferred outflow of resources			
Deferred charge on refunding		62,500	62,500
Liabilities			
Accounts payable	\$ 674,025	-	674,025
Accrued liabilities	124,438	-	124,438
Accrued interest payable	-	5,223	5,223
Long-term liabilities:			
Due within one year	-	571,431	571,431
Due after one year	-	2,337,881	2,337,881
Total liabilities	798,463	2,914,535	3,712,998
Deferred inflows of resources			
Unavailable revenue - special assessments	142,860	(142,860)	-
Fund balance			
Nonspendable - inventory	435,116	(435,116)	-
Nonspendable - prepaid expense	30,572	(30,572)	-
Restricted for primary roads	4,485,112	(4,485,112)	-
Restricted for local roads	38,067	(38,067)	-
Unassigned	779,827	(779,827)	-
Total fund balance	5,768,694	(5,768,694)	-
Total liabilities, deferred inflows of resources, and fund balance	\$ 6,710,017		
Net position			
Net investment in capital assets		69,880,877	69,880,877
Unrestricted		6,860,284	6,860,284
Total net position		\$ 76,741,161	\$ 76,741,161

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 Position September 30, 2013

Fund balance - general fund	\$ 5,768,694
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Certain assets used in <i>governmental activities</i> are not financial resources and therefore are not reported in the funds.	
Capital assets	72,475,877
Net other postemployment benefits asset	1,205,765
Deferred outflows of resources in <i>governmental activities</i> are not financial resources and therefore not reported in the funds	
	62,500
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 inflows of resources	142,860
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(2,595,000)
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	(314,312)
Accrued interest payable	(5,223)
Net position of governmental activities	<u>\$ 76,741,161</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, 2013

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Current -			
Public works	\$ 9,319,105	\$ 928,785	\$ 10,247,890
Debt service:			
Principal	500,000	(500,000)	-
Interest	75,166	(869)	74,297
	<u>9,894,271</u>	<u>427,916</u>	<u>10,322,187</u>
Total expenditures/expenses			
Program revenues			
Charges for services	1,054,244	(80,359)	973,885
Operating grants and contributions	7,695,040	-	7,695,040
Capital grants and contributions	1,943,833	-	1,943,833
	<u>10,693,117</u>	<u>(80,359)</u>	<u>10,612,758</u>
Total program revenues			
Net program revenues			290,571
General revenues			
Interest earned	728	-	728
	<u>728</u>	<u>-</u>	<u>728</u>
Other financing sources and uses			
Payment to bond escrow agent	(2,595,000)	2,595,000	-
Proceeds from refunding bonds	2,595,000	(2,595,000)	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)			
Net change in fund balance	799,574	(799,574)	
Changes in net position		291,299	291,299
Fund balance/net position, beginning of year	4,969,120	71,480,742	76,449,862
	<u>4,969,120</u>	<u>71,480,742</u>	<u>76,449,862</u>
Fund balance/net position, end of year	\$ 5,768,694	\$ 70,972,467	\$ 76,741,161
	<u>\$ 5,768,694</u>	<u>\$ 70,972,467</u>	<u>\$ 76,741,161</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, 2013

Change in net position - general fund	\$ 799,574
<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	105,285
Capital outlay additions being depreciated	3,185,193
Depreciation expense	(4,489,164)
Loss on disposition of capital assets	(1,447)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.</p>	
Change in deferred long-term special assessments receivable	(80,359)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds but not in the statement of activities:</p>	
Principal payments	500,000
Proceeds from issuance of bonds	(2,595,000)
Amortization of deferred charge on refunding	(12,500)
Payment to bond escrow agent	2,595,000
<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	(3,409)
Change in accrued interest	13,369
Change in net OPEB asset	274,757
Change in net position of governmental activities	<u>\$ 291,299</u>

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

EATON COUNTY ROAD COMMISSION

Statement of Revenues, Expenditures and Changes

in Fund Balance - Budget and Actual

General Operating Fund

For the Year Ended September 30, 2013

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Permits	\$ 60,000	\$ 74,000	\$ 77,540	\$ 3,540
Intergovernmental:				
Federal sources	4,645,562	2,029,629	1,614,966	(414,663)
State sources	7,765,000	7,901,597	8,023,907	122,310
Local sources	940,841	847,835	792,356	(55,479)
Interest and rentals	300	741	728	(13)
Other	98,000	181,729	184,348	2,619
Total revenues	13,509,703	11,035,531	10,693,845	(341,686)
Expenditures				
Current:				
Construction - Primary	260,000	375,000	353,283	(21,717)
Primary - Preservation/ structural improvements	4,663,650	2,422,905	1,873,205	(549,700)
Local - Preservation/ structural improvements	1,551,062	1,083,000	972,042	(110,958)
Primary maintenance	3,771,953	3,256,669	3,113,196	(143,473)
Local maintenance	2,218,520	2,320,912	2,135,148	(185,764)
Equipment - net	-	(250,000)	(312,783)	(62,783)
Administrative - net	900,000	815,000	796,698	(18,302)
Capital outlay - net	381,500	(205,104)	(186,888)	18,216
Debt service	611,775	575,053	575,166	113
Other	650,000	611,000	575,204	(35,796)
Total expenditures	15,008,460	11,004,435	9,894,271	(1,110,164)
Excess of revenues over (under) expenditures	(1,498,757)	31,096	799,574	768,478
Other financing sources and uses				
Payment to bond escrow agent	-	(2,595,000)	(2,595,000)	-
Proceeds from refunding bonds	-	2,595,000	2,595,000	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(1,498,757)	31,096	799,574	768,478
Fund balance, beginning of year	4,969,120	4,969,120	4,969,120	-
Fund balance, end of year	\$ 3,470,363	\$ 5,000,216	\$ 5,768,694	\$ 768,478

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

EATON COUNTY ROAD COMMISSION

Statement of Fiduciary Net Position September 30, 2013

	Employee Health Care Benefit Trust
Assets	
Investments, at fair value	
Mutual funds	<u>\$ 2,321,519</u>
Net position held in trust for retiree health	<u><u>\$ 2,321,519</u></u>

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

EATON COUNTY ROAD COMMISSION

Statement of Changes in Fiduciary Net Position For the Year Ended September 30, 2013

	Employee Health Care Benefit Trust
Additions	
Contributions:	
Employer	\$ 509,541
Investment income:	
Net increase in fair value of investments	<u>194,710</u>
Total additions	<u>704,251</u>
Deductions	
Benefit payments	(209,541)
Administration	<u>(19,715)</u>
Total deductions	<u>(229,256)</u>
Change in net position	474,995
Net position held in trust for retiree health, beginning of the year	<u>1,846,524</u>
End of the year	<u><u>\$ 2,321,519</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 three member (five member effective January 15, 2014) Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission provides services to sixteen townships in Eaton County and maintains over 1,173 miles of local and primary roads.

The 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 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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 fund -

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 Revenues, 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.

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

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

Deferred outflows of resources

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

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums and discounts 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.

Deferred inflows of resources

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

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 Position and Statement of Fiduciary Net Position follows:

Statement of Net Position -	
Cash and cash equivalents	\$ 4,424,117
Statement of Fiduciary Net Position -	
Employee Health Care Benefit Trust Fund -	
Investments	<u>2,321,519</u>
Total	<u>\$ 6,745,636</u>

At September 30, 2013, the amount of the Road Commission’s deposits were as follows:

	Carrying Amount	Bank Balance
Petty cash	\$ 250	\$ -
Checking account	15,491	221,902
Held by Eaton County - bank money markets	<u>4,408,376</u>	<u>4,408,376</u>
	<u>\$ 4,424,117</u>	<u>\$ 4,630,278</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, 2013, the Road Commission has invested \$2,321,519 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, 2013, the entire \$221,902 of the Road Commission's bank balance was insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$4,408,376 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, 2013 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	766,476	17,111	-	783,587
Land improvements - infrastructure	23,294,686	88,174	-	23,382,860
Total capital assets not being depreciated	24,304,164	105,285	-	24,409,449
Capital assets being depreciated:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	6,481,922	-	-	6,481,922
Equipment:				
Road	5,760,269	68,797	156,092	5,672,974
Shop	84,823	-	-	84,823
Office	303,374	-	3,737	299,637
Engineering	126,518	3,139	-	129,657
Yard and storage	562,818	1,263	-	564,081
Infrastructure - roads	72,487,390	2,535,985	3,489,434	71,533,941
Infrastructure - bridges	19,776,164	425,056	17,380	20,183,840
Infrastructure - traffic signals	1,423,160	150,953	-	1,574,113
Total capital assets being depreciated	107,056,997	3,185,193	3,666,643	106,575,547
Less accumulated depreciation and depletion for:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	1,750,261	129,319	-	1,879,580
Equipment:				
Road	5,455,417	116,007	154,645	5,416,779
Shop	79,511	1,275	-	80,786
Office	292,210	6,320	3,737	294,793
Engineering	126,516	523	-	127,039
Yard and storage	532,137	6,354	-	538,491
Infrastructure - roads	40,732,823	3,718,709	3,489,434	40,962,098
Infrastructure - bridges	7,843,383	418,275	17,380	8,244,278
Infrastructure - traffic signals	822,334	92,382	-	914,716
Total accumulated depreciation and depletion	57,685,151	4,489,164	3,665,196	58,509,119
Total assets being depreciated, net	49,371,846	(1,303,971)	1,447	48,066,428
Governmental activities capital assets, net	\$ 73,676,010	\$ (1,198,686)	\$ 1,447	\$ 72,475,877

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	\$ 3,020,000	\$ -	\$ 3,020,000	\$ -	\$ -
MTF Refunding Bonds - 2013	-	2,595,000	-	2,595,000	540,000
Compensated absences	310,903	176,222	172,813	314,312	31,431
	<u>\$ 3,330,903</u>	<u>\$ 2,771,222</u>	<u>\$ 3,192,813</u>	<u>\$ 2,909,312</u>	<u>\$ 571,431</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.

Advance Refunding. During the year, County of Eaton issued \$2,595,000 of Michigan Transportation Fund Refunding Bonds to refund \$2,520,000 of general obligation bonds by placing the proceeds of the refunding bonds in an irrevocable trust for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the related liabilities have been removed from the statement of net position. The reacquisition price of the refunding bonds exceeded the carrying amount of the refunded debt by \$75,000 and, accordingly, is being amortized over the remaining years of the refunded debt. The refunding resulted in a savings of \$160,879 and an economic gain of \$156,439.

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, 2013, excluding sick and vacation leave payable, is as follows:

Years Ending September 30,	MTF Bonds		
	Principal	Interest	Total
2014	\$ 540,000	\$ 31,399	\$ 571,399
2015	525,000	24,865	549,865
2016	515,000	18,514	533,514
2017	505,000	12,283	517,283
2018	510,000	6,172	516,172
Total	<u>\$ 2,595,000</u>	<u>\$ 93,233</u>	<u>\$ 2,688,233</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 \$204,945 for the year ended September 30, 2013.

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.

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. Retirees who retire before March 9, 2004 are subject to no maximum benefit limitations, and all retirees who retire after March 9, 2004 receive a maximum employer contribution of \$500 per month for one person coverage and \$1,000 per month for two person coverage. Also, there may be an additional amount to prefund benefits as determined annually by the Road Commission Board of Commissioners. For the year ended September 30, 2013, the Road Commission contributed \$509,541 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	(46,550)
Adjustment to annual required contribution	<u>45,792</u>
Net OPEB cost (expense)	234,784
Contributions made	<u>(509,541)</u>
Increase in net OPEB asset	(274,757)
Net OPEB liability (asset), beginning of year	<u>(931,008)</u>
Net OPEB liability (asset), end of year	<u><u>\$ (1,205,765)</u></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 2013, was as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Contribution	Net OPEB Obligation (Asset)
9/30/2011	\$ 230,483	240%	\$ (652,725)
9/30/2012	235,542	218%	(931,008)
9/30/2013	234,784	217%	(1,205,765)

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, 2013, was twenty six years.

EATON COUNTY ROAD COMMISSION

Notes to Financial Statements

10. NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets includes the book value of capital assets, or \$72,475,877, less related debt used to finance those assets of \$2,595,000, for a net amount of \$69,880,877.

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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
2011	\$ 231,132	239.6%
2012	235,542	218.1%
2013	235,542	216.3%

OPERATING FUND SCHEDULES

EATON COUNTY ROAD COMMISSION

Detail Schedule of Revenues - Budget and Actual

General Operating Fund

For the Year Ended September 30, 2013

	Amended Budget	Actual	Variance
Permits	\$ 74,000	\$ 77,540	\$ 3,540
Federal sources:			
Bridge	272,199	272,131	(68)
Surface transportation program	1,315,722	942,488	(373,234)
Other	441,708	400,347	(41,361)
Total federal sources	<u>2,029,629</u>	<u>1,614,966</u>	<u>(414,663)</u>
State sources:			
Motor vehicle highway funds - Act 51	7,600,000	7,695,040	95,040
Other	301,597	328,867	27,270
Total state sources	<u>7,901,597</u>	<u>8,023,907</u>	<u>122,310</u>
Local sources -			
Local unit contributions	<u>847,835</u>	<u>792,356</u>	<u>(55,479)</u>
Interest and rentals	<u>741</u>	<u>728</u>	<u>(13)</u>
Other:			
Special assessments	80,359	80,359	-
Other	101,370	103,989	2,619
Total other	<u>181,729</u>	<u>184,348</u>	<u>2,619</u>
 Total revenues	 <u>\$ 11,035,531</u>	 <u>\$ 10,693,845</u>	 <u>\$ (341,686)</u>

EATON COUNTY ROAD COMMISSION

Detail Schedule of Expenditures - Budget and Actual

General Operating Fund

For the Year Ended September 30, 2013

	Amended Budget	Actual	Variance
Construction -			
Primary roads	\$ 375,000	\$ 353,283	\$ (21,717)
Preservation - structural improvements:			
Primary roads and structures	2,422,905	1,873,205	(549,700)
Local roads and structures	1,083,000	972,042	(110,958)
Total preservation - structural improvements	<u>3,505,905</u>	<u>2,845,247</u>	<u>(660,658)</u>
Routine and preventative maintenance:			
Primary roads and structures, winter and traffic control	3,256,669	3,113,196	(143,473)
Local roads and structures, winter and traffic control	2,320,912	2,135,148	(185,764)
Total maintenance	<u>5,577,581</u>	<u>5,248,344</u>	<u>(329,237)</u>
Equipment:			
Direct	450,000	433,704	(16,296)
Indirect	925,000	833,006	(91,994)
Operating	350,000	330,138	(19,862)
Less: equipment rental	(1,975,000)	(1,909,631)	65,369
Total equipment, net	<u>(250,000)</u>	<u>(312,783)</u>	<u>(62,783)</u>
Administrative -			
Administration	<u>815,000</u>	<u>796,698</u>	<u>(18,302)</u>
Capital outlay:			
Land improvements, building and equipment	52,692	74,349	21,657
Less: Depreciation	(256,358)	(259,799)	(3,441)
Retirements	(1,438)	(1,438)	-
Total capital outlay, net	<u>(205,104)</u>	<u>(186,888)</u>	<u>18,216</u>
Debt service:			
Principal retirement	500,000	500,000	-
Interest and fiscal charges	75,053	75,166	113
Total debt service	<u>575,053</u>	<u>575,166</u>	<u>113</u>
Other -			
Other	<u>611,000</u>	<u>575,204</u>	<u>(35,796)</u>
Total expenditures	<u>\$ 11,004,435</u>	<u>\$ 9,894,271</u>	<u>\$ (1,110,164)</u>

EATON COUNTY ROAD COMMISSION

Schedule of Revenues, Expenditures and Changes in Fund Balances For the Year Ended September 30, 2013

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Revenues				
Permits	\$ -	\$ -	\$ 77,540	\$ 77,540
Intergovernmental:				
Federal sources	1,342,835	272,131	-	1,614,966
State sources	5,697,947	2,325,960	-	8,023,907
Local sources	229,099	544,260	18,997	792,356
Interest and rentals	580	5	143	728
Other	-	116,012	68,336	184,348
Total revenues	7,270,461	3,258,368	165,016	10,693,845
Expenditures				
Construction	353,283	-	-	353,283
Preservation - structural improvements	1,873,205	972,042	-	2,845,247
Maintenance	3,113,196	2,135,148	-	5,248,344
Equipment - net	(88,332)	(126,280)	(98,171)	(312,783)
Administrative - net	503,632	293,066	-	796,698
Capital outlay - net	-	-	(186,888)	(186,888)
Debt principal	-	-	500,000	500,000
Interest and fiscal charges	-	-	75,166	75,166
Other	125,556	377,443	72,205	575,204
Total expenditures	5,880,540	3,651,419	362,312	9,894,271
Revenues over (under) expenditures	1,389,921	(393,051)	(197,296)	799,574
Other financing sources and uses				
Payment to bond escrow agent	-	-	(2,595,000)	(2,595,000)
Proceeds from refunding bonds	-	-	2,595,000	2,595,000
Internal transfers	(400,000)	400,000	-	-
Total other financing sources (uses)	(400,000)	400,000	-	-
Net change in fund balance	989,921	6,949	(197,296)	799,574
Fund balance, beginning of year	3,960,879	31,118	977,123	4,969,120
Fund balance, end of year	\$ 4,950,800	\$ 38,067	\$ 779,827	\$ 5,768,694

**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***

February 7, 2014

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the fiduciary fund information of the *Eaton County Road Commission* (the "Commission"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 7, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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