

Audited Financial Statements
Eaton County Road Commission

*Year Ended September 30, 2016
with Report of Independent Auditors*

Eaton County Road Commission

Audited Financial Statements

Year Ended September 30, 2016

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Eaton County Road Commission (Road Commission), a component unit of Eaton County, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Eaton County Road Commission as of September 30, 2016 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the budgetary comparison schedule on page 32, and the Schedules of Funding Progress and Employer Contributions for the Retired Employees' Healthcare Plan on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the 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 16, 2017, on our consideration of the Eaton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Okemos, Michigan
February 16, 2017

Eaton County Road Commission

Management's Discussion and Analysis

September 30, 2016

As management of the Eaton County Road Commission (Road Commission), we offer the readers of the Road Commission's financial statements this narrative and analysis of the financial activities of the Road Commission for the fiscal year ended September 30, 2016.

Financial Highlights

Net position, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Road Commission's net position chart, the Road Commission's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$88,335,214 at the end of the fiscal year. There was an increase of \$4,789,114 in net position during 2016.

The general operating fund had an increase in fund balance for the year of \$638,644. Total fund balance is \$5,876,078.

Overview of the Financial Statements

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

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

Government-wide Statements

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

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

The government-wide financial statements include only the Road Commission itself (known as the primary government). The Road Commission has no legally separate component units for which the Road Commission is financially accountable. In this report, financial information for

Eaton County Road Commission

Management's Discussion and Analysis

September 30, 2016

the Road Commission is reported separately from the financial information presented for Eaton County which reports the Road Commission as a component unit.

Fund Financial Statements

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

Governmental Funds

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

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

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

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

The Road Commission does not maintain proprietary funds.

Fiduciary Funds

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

Eaton County Road Commission

Management's Discussion and Analysis

September 30, 2016

Notes to the Financial Statements

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

Other Information

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

Condensed Statement of Net Position

	September 30,	
	2016	2015
Assets		
Current and other assets	\$ 9,677,553	\$ 9,137,417
Capital assets, net	81,001,453	77,971,569
Total assets	90,679,006	87,108,986
Deferred outflows of resources	25,000	37,500
Liabilities		
Long-term liabilities	1,301,891	1,834,020
Other liabilities	1,066,901	1,766,366
Total Liabilities	2,368,792	3,600,386
Net Position		
Net investment in capital assets	80,011,453	76,479,069
Restricted – local roads millage	2,869	55,430
Unrestricted	8,320,892	7,011,601
Total net position	\$ 88,335,214	\$ 83,546,100

Eaton County Road Commission

Management's Discussion and Analysis

September 30, 2016

Condensed Statement of Activities

	<u>Year Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Revenue		
Program revenues:		
Charges for services	\$ 365,036	\$ 542,990
Operating grants and contributions	9,580,172	8,759,907
Capital grants and contributions	2,045,129	3,118,907
General revenues:		
Property taxes	3,964,993	3,790,275
Interest earned	16,582	6,351
Miscellaneous income	5,996	14,167
Total Revenue	<u>15,977,908</u>	<u>16,232,597</u>
Expenses		
Public works	11,158,837	11,092,110
Debt service – interest	29,957	36,288
Total expenses	<u>11,188,794</u>	<u>11,128,398</u>
Increase in net position	4,789,114	5,104,199
Net position, beginning of year	<u>83,546,100</u>	<u>78,441,901</u>
Net position, end of year	<u>\$ 88,335,214</u>	<u>\$ 83,546,100</u>

Governmental Activities

Governmental activities increased the Road Commission's net position by \$4,789,114 during fiscal year 2016. This increase in net position is primarily due to results of operations at the fund level, and an increase in infrastructure investment made possible by the county-wide property tax millage dedicated to the repair and rehabilitation of county local roads.

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, 2016 was \$5,876,078, compared to \$5,237,434 at September 30, 2015, and was comprised of three components. One component is nonspendable to indicate that it was not available for spending because it has already been committed to inventory purchases, which are included as fund assets. The nonspendable fund balance was \$424,500 as of September 30, 2016. One component is restricted as it represents unspent funds from property taxes received,

Eaton County Road Commission

Management's Discussion and Analysis

September 30, 2016

which amounted to \$2,869 as of September 30, 2016. The remaining balance of the Road Commission's fund balance is considered unassigned. The unassigned fund balance at September 30, 2016 was \$5,448,709.

Overall, there was increase in the total fund balance of \$638,644 for 2016 due to operating revenues exceeding expenditures.

General Operating Fund Budget Highlights

Amendments to the original budget were made during the year as more information on funding sources and related projects became known. The Road Commission amended its FY 2016 budget to reflect an increase in revenue sources (primarily from federal and state sources), by approximately \$550,000, with a corresponding increase in budgeted expenditures of approximately \$1,150,000.

Capital Assets and Debt Administration

Capital Assets

Capital assets in total, net of accumulated depreciation, increased from \$77,971,569 to \$81,001,453 due primarily to investments in infrastructure made possible by the county-wide property tax millage and federal and state grants. Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets (including infrastructure) is allocated over their estimated useful lives and reported as depreciation expense. More detailed information of capital assets can be found in the notes to the financial statements.

Long-term Debt

Total bonded long-term debt was \$1,015,000 at September 30, 2016. Long-term debt at September 30, 2016 also included a compensated absences component amounting to \$286,891, which consists of accumulated vacation and sick leave (at 50%) which is earned but not yet paid. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds but not in the statement of activities. More detailed information of long term debt can be found in the notes to the financial statements.

Eaton County Road Commission

Management's Discussion and Analysis

September 30, 2016

Economic Factors and Road Fund Budgetary Highlights

On January 1, 2017, increases in the state gas tax and vehicle registration fees went into effect. We expect this new revenue to generate an additional \$1,600,000 in Michigan Transportation Fund (MTF) distributions for the 2017 fiscal year. However, this increase will be substantially offset by the decrease of approximately \$1,300,000 that was received as an appropriation of the State of Michigan's General Fund in fiscal year 2016. The change in these two funding sources results in a net increase of only \$300,000 from the State of Michigan. Higher fuel and utility costs, raw materials and equipment, as well as increases in the cost of contractually fixed fringe benefits will continue to impact Road Commission resources.

On November 4, 2014, Eaton County voters approved a twelve-year, 1.5 mill property tax levy to fund the rehabilitation and repair of the County's local road system. The revenue raised by this millage totaled nearly \$4 million in 2016 and is expected to remain relatively flat in 2017. In compliance with the ballot language, revenues from this millage must be used solely to improve the condition of poor and fair local paved and gravel roads, and to provide county-wide dust control on gravel roads twice per year.

The Road Commission expects an increase in the number of road and bridge projects funded primarily by federal and state grants in 2017 which will result in increased levels of related revenues and expenditures compared to fiscal year 2016.

While the Road Commission's maintenance budget is sensitive to weather conditions, 2017 expenditures are expected to be similar to 2016.

Request for Information

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

Basic Financial Statements

Eaton County Road Commission
Governmental Fund Balance Sheet / Statement of Net Position
September 30, 2016

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and interest bearing deposits	\$ 5,016,301	\$ -	\$ 5,016,301
Receivables:			
Motor vehicle highway funds	1,408,803	-	1,408,803
Township road agreements	74,468	-	74,468
Special assessments	28,887	-	28,887
Other	16,860	-	16,860
Inventories:			
Road materials	258,442	-	258,442
Equipment material and parts	166,058	-	166,058
Prepaid items	-	192,591	192,591
Net other postemployment benefits asset	-	2,515,143	2,515,143
Capital assets:			
Assets not being depreciated	-	24,416,649	24,416,649
Assets being depreciated, net	-	56,584,804	56,584,804
Total assets	6,969,819	83,709,187	90,679,006
Deferred outflows of resources			
Deferred loss on refunding	-	25,000	25,000
Total assets and deferred outflows of resources	\$ 6,969,819	83,734,187	90,704,006
Liabilities			
Accounts payable	\$ 908,989	-	908,989
Accrued liabilities	145,112	-	145,112
Advances	10,753	-	10,753
Accrued interest payable	-	2,047	2,047
Long-term liabilities:			
Due within one year	-	533,689	533,689
Due in more than one year	-	768,202	768,202
Total liabilities	1,064,854	1,303,938	2,368,792
Deferred inflows of resources			
Unavailable revenue – special assessments	28,887	(28,887)	-
Fund balance			
Nonspendable – inventory	424,500	(424,500)	-
Restricted – local roads millage	2,869	(2,869)	-
Unassigned	5,448,709	(5,448,709)	-
Total fund balance	5,876,078	(5,876,078)	-
Total liabilities, deferred inflows of resources, and fund balance	\$ 6,969,819		
Net position:			
Net investment in capital assets		80,011,453	80,011,453
Restricted – local roads millage		2,869	2,869
Unrestricted		8,320,892	8,320,892
Total net position		\$ 88,335,214	\$ 88,335,214

See accompanying notes.

Eaton County Road Commission

Reconciliation of Governmental Fund Balance Sheet
to Statement of Net Position

September 30, 2016

Fund balance – general fund \$ 5,876,078

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

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

Capital assets not being depreciated	24,416,649
Capital assets being depreciated, net	56,584,804
Prepaid items	192,591
Net other postemployment benefits asset	2,515,143

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

Deferred special assessment receivable	28,887
--	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period and are not reported in the funds.

Bonds payable	(1,015,000)
Unamortized deferred loss on bond refunding	25,000
Compensated absences	(286,891)
Accrued interest payable	<u>(2,047)</u>

Net position – governmental activities \$ 88,335,214

Eaton County Road Commission

Governmental Fund Statement of Revenues, Expenditures, and
Changes in Fund Balance / Statement of Activities

Year Ended September 30, 2016

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses			
Current			
Public works	\$ 14,837,820	\$ (3,678,983)	\$ 11,158,837
Debt service:			
Principal	515,000	(515,000)	-
Interest	18,495	11,462	29,957
Total expenditures/expenses	<u>15,371,315</u>	<u>(4,182,521)</u>	<u>11,188,794</u>
Program revenues			
Charges for services	397,087	(32,051)	365,036
Operating grants and contributions	9,580,172	-	9,580,172
Capital grants and contributions	2,045,129	-	2,045,129
Total program revenues	<u>12,022,388</u>	<u>(32,051)</u>	<u>11,990,337</u>
Net program revenues			801,543
General revenues			
Property taxes	3,964,993	-	3,964,993
Interest earned	16,582	-	16,582
Miscellaneous income	5,996	-	5,996
Total general revenues	<u>3,987,571</u>	<u>-</u>	<u>3,987,571</u>
Net change in fund balance	638,644	(638,644)	-
Change in net position		4,789,114	4,789,114
Fund balance / net position – beginning of year	5,237,434	78,308,666	83,546,100
Fund balance / net position – end of year	<u>\$ 5,876,078</u>	<u>\$ 82,459,136</u>	<u>\$ 88,335,214</u>

Eaton County Road Commission

Reconciliation of Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities

Year Ended September 30, 2016

Net change in fund balance– general fund	\$ 638,644
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Purchases of capital assets	8,303,628
Depreciation expense	(5,273,732)
Gain on disposal of capital assets	(12)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.</p>	
Change in deferred special assessments receivable	(32,039)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds but the repayment reduces long-term liabilities in the statement of net position.</p>	
Principal payments	515,000
<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	17,129
Amortization of deferred charge on refunding	(12,500)
Change in prepaid items	(37,483)
Change in accrued interest	1,038
Change in net other postemployment benefits asset	669,441
Change in net position– governmental activities	\$ 4,789,114

Eaton County Road Commission
Statement of Fiduciary Net Position
Year Ended September 30, 2016

	Employee Health Care Benefit Trust
Assets	
Investments, at fair value:	
Mutual funds	\$ 3,857,462
Accrued interest	8,768
	<hr/>
Net position restricted for other postemployment benefits	<u>\$ 3,866,230</u>

Eaton County Road Commission

Statement of Changes in Fiduciary Net Position

Year Ended September 30, 2016

	Employee Health Care Benefit Trust
Additions	
Contributions:	
Employer	\$ 786,686
Net change in fair value of investments	282,842
Total additions	<u>1,069,528</u>
Deductions	
Benefit payments	186,685
Administration	31,099
Total deductions	<u>217,784</u>
Change in net position	851,744
Net position restricted for other postemployment benefits, Beginning of the year	<u>3,014,486</u>
End of the year	<u><u>\$ 3,866,230</u></u>

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

1. Summary of Significant Accounting Policies

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

Reporting Entity

The Eaton County Road Commission is a discrete component unit of the County of Eaton, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a five member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission provides services to 16 townships in Eaton County and maintains over 1,173 miles of local and primary roads.

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

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission's General Operating Fund.

Basis of Presentation

Government-Wide 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.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

1. Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements (continued)

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the statement of net position and governmental fund balance sheet and the statement of activities and governmental fund revenues, expenditures, and changes in fund balance. The major individual governmental fund is reported as a separate column in the aforementioned financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund (general fund) financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

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

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The government reports the following major governmental fund:

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

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

Property Tax Revenue

Property taxes are levied on December 1 of each year (the lien date) and are due in full by March 1 of the year following the levy, at which time uncollected taxes become delinquent. Property taxes recorded for the fiscal year ended September 30, 2016 were levied and billed on December 1, 2015. All property taxes are billed and collected by cities, villages, and townships and remitted to Eaton County. Eaton County remits property taxes to the Road Commission.

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 budgetary comparison schedule for the general operating fund.

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

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

1. Summary of Significant Accounting Policies (continued)

Inventory

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

Prepaid Items

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

Fund Equity

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

When the Road Commission incurs an expenditure for purposes for which various fund balance 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. 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.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

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

Depreciation is recorded over the estimated useful lives (ranging from 5 to 40 years) of the assets, using the sum-of-years digits method for road equipment and the straight-line method for all other capital assets and infrastructure as follows:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Equipment	5-8
Infrastructure:	
Roads	8-30
Bridges	25-50
Traffic signals	15

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has only 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. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Long-Term Debt Obligations

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

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

1. Summary of Significant Accounting Policies (continued)

Long-Term Debt Obligations (continued)

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 the number of years of service completed by each employee.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under the 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

September 30, 2016

2. Cash Deposits and Investments

Deposits

A reconciliation of cash and investments as shown on the statement of net position and statement of fiduciary net position follows:

Statement of net position	
Cash and interest bearing deposits	\$ 5,016,301

Statement of fiduciary net position	
Employee Health Care Benefit Trust	
Fund investments	3,857,462
Total	<u>\$ 8,873,763</u>

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Petty cash	\$ 250	\$ -
Checking account	22,693	915,981
Held by Eaton County – bank money markets	4,993,358	4,990,866
Investments	3,857,462	3,857,462
	<u>\$ 8,873,763</u>	<u>\$ 9,764,309</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

September 30, 2016

2. Cash Deposits and Investments (continued)

Fair Value Measurements

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

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

The Road Commission has the following recurring fair value measurements as of September 30, 2016:

- Mutual funds held by the Employee Health Care Benefit Trust totaling \$3,857,462 as of September 30, 2016 are valued using prices quoted in active markets for those securities (Level 1 inputs).

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

2. Cash Deposits and Investments (continued)

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, 2016, the Road Commission has invested \$3,857,462 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, 2016, \$250,000 of the Road Commission's bank balances were insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$4,990,866 held by Eaton County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

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

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments on the previous page. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held by the Road Commission as of September 30, 2016 were in an external investment pool.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

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	788,636	-	-	788,636
Land improvements – infrastructure	23,385,011	-	-	23,385,011
Total capital assets not being depreciated	24,416,649	-	-	24,416,649
Capital assets being depreciated:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	6,530,005	3,017	-	6,533,022
Equipment:				
Road	6,438,154	508,124	(159,093)	6,787,185
Shop	91,402	7,750	-	99,152
Office	306,611	-	(61,783)	244,828
Engineering	124,206	8,288	(10,880)	121,614
Yard and storage	574,904	-	-	574,904
Infrastructure – roads	76,972,327	6,723,975	(2,496,016)	81,200,286
Infrastructure – bridges	20,841,026	1,040,680	(12,333)	21,869,373
Infrastructure – traffic signals	2,005,523	11,794	-	2,017,317
Total capital assets being depreciated	113,934,717	8,303,628	(2,740,105)	119,498,240
Less accumulated depreciation for:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	2,139,171	130,894	-	2,270,065
Equipment:				
Road	5,479,286	335,440	(159,081)	5,655,645
Shop	85,057	2,654	-	87,711
Office	299,549	2,267	(61,783)	240,033
Engineering	122,846	949	(10,880)	112,915
Yard and storage	552,174	5,661	-	557,835
Infrastructure – roads	41,449,831	4,228,781	(2,496,016)	43,182,596
Infrastructure – bridges	9,061,908	444,661	(12,333)	9,494,236
Infrastructure – traffic signals	1,139,416	122,425	-	1,261,841
Total accumulated depreciation	60,379,797	5,273,732	(2,740,093)	62,913,436
Total assets being depreciated, net	53,554,920	3,029,896	(12)	56,584,804
Governmental activities capital assets, net	\$ 77,971,569	\$ 3,029,896	\$ (12)	\$ 81,001,453

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

4. Long-Term Debt

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
MTF Refunding Bonds – 2013	\$ 1,530,000	\$ -	\$ (515,000)	\$ 1,015,000	\$ 505,000
Compensated absences	304,020	179,037	(196,166)	286,891	28,689
	<u>\$ 1,834,020</u>	<u>\$ 179,037</u>	<u>\$ (711,166)</u>	<u>\$ 1,301,891</u>	<u>\$ 533,689</u>

MTF Bonds

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

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

The annual requirement to amortize the debt outstanding as of September 30, 2016, excluding sick and vacation leave payable, is as follows:

Year Ending September 30	Principal	Interest	Total
2017	\$ 505,000	\$ 12,282	\$ 517,282
2018	510,000	6,171	516,171
Total	<u>\$ 1,015,000</u>	<u>\$ 18,453</u>	<u>\$ 1,033,453</u>

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

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

5. Defined Contribution Pension Plan

The Road Commission provides pension benefits for substantially all of its full-time employees through the 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 \$213,427 for the year ended September 30, 2016.

6. Risk Management

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

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

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

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

7. Contingencies

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

8. Economic Dependency

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

9. Federal Funding

The Road Commission is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures are included in the single audit for the State of Michigan. Because the Road Commission expended less than \$750,000 in directly administered federal awards, no single audit was required for the year ended September 30, 2016.

10. Postemployment Benefits Other Than Pensions

Plan description. The Road Commission administers a single-employer defined benefit healthcare plan (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 retired before March 9, 2004 are subject to no maximum benefit limitations; retirees who retired between March 10, 2004 and September 30, 2015 receive a maximum employer contribution of \$500 per month for one person coverage and \$1,000 per month for two person coverage; and retirees who retire after September 30, 2015 receive a maximum employer contribution of \$550 per month for one person coverage and \$1,100 per month for two person coverage. Also, there may be an additional amount to prefund benefits as determined annually by the Road Commission Board of Commissioners. For the year ended September 30, 2016, the Road Commission contributed \$786,686 to the Plan.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

10. Postemployment Benefits Other Than Pensions (continued)

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 100 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 30 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	\$ 133,264
Interest on net OPEB asset	(129,199)
Adjustment to annual required contribution	<u>113,180</u>
Net OPEB cost (expense)	117,245
Contributions made	<u>786,686</u>
Increase in net OPEB asset	669,441
Net OPEB asset, beginning of year	<u>1,845,702</u>
Net OPEB asset, end of year	<u>\$ 2,515,143</u>

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2016 and the previous two years, was as follows:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Contribution</u>	<u>Net OPEB Asset</u>
9/30/2014	\$ 234,560	216%	\$ 1,477,532
9/30/2015	124,880	395%	1,845,702
9/30/2016	117,245	671%	2,515,143

Funded status and funding progress. As of September 30, 2015, the date of the latest actuarial valuation, the actuarial accrued liability for benefits was \$3,815,444, of which \$800,958 was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,839,347 and the ratio of the UAAL to the covered payroll was 43.5 percent.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

10. Postemployment Benefits Other Than Pensions (continued)

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 the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees. Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 59 ½.

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, 2005-2020.

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 7% 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 as of September 30, 2015 was 24 years.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2016

11. Net Investment in Capital Assets

The composition of net investment in capital assets as of September 30, 2016, was as follows:

Capital assets:	
Not being depreciated	\$ 24,416,649
Being depreciated, net	56,584,804
	<hr/>
	81,001,453
Related debt:	
Bonds and installment loans payable	1,015,000
Deferred loss on refunding	(25,000)
	<hr/>
	990,000
	<hr/>
Net investment in capital assets	\$ 80,011,453

12. Upcoming Accounting Pronouncements

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*

The primary objective of these statements is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). These statements resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB Statement No. 74 addresses financial reporting by OPEB plans. GASB Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. The requirements of GASB Statement No. 74 will be effective for fiscal years beginning after June 15, 2016. The requirements of GASB Statement No. 75 will be effective for fiscal years beginning after June 15, 2017. The Road Commission is currently evaluating the impact these statements will have on the financial statements when adopted; however, the Road Commission believes that the impact will be material.

Required Supplementary Information

Eaton County Road Commission
 Budgetary Comparison Schedule
 Year Ended September 30, 2016

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 3,895,643	\$ 3,962,907	\$ 3,964,993	\$ 2,086
Permits	75,000	75,000	75,358	358
Intergovernmental:				-
Federal sources	1,345,709	1,675,762	1,872,677	196,915
State sources	9,365,957	9,614,715	9,752,624	137,909
Local sources	321,865	212,047	225,049	13,002
Interest and rentals	3,896	10,115	16,582	6,467
Other	130,463	133,089	102,676	(30,413)
Total revenues	15,138,533	15,683,635	16,009,959	326,324
Expenditures				
Current:				
Construction – primary	-	-	-	-
Primary – preservation/structural improvements	1,552,991	2,488,175	2,243,254	244,921
Local – preservation/structural improvements	4,807,113	6,004,106	5,533,196	470,910
Primary maintenance	3,700,000	3,192,000	2,978,958	213,042
Local maintenance	2,950,000	2,731,011	2,619,781	111,230
Equipment – net	-	200,000	232,099	(32,099)
Administrative – net	850,000	850,000	830,648	19,352
Other	450,000	377,045	351,070	25,975
Capital outlay – net	460,000	76,688	48,814	27,874
Debt service	533,513	533,513	533,495	18
Total expenditures	15,303,617	16,452,538	15,371,315	1,081,223
Net change in fund balance	(165,084)	(768,903)	638,644	1,407,547
Fund balance – beginning of year	5,237,434	5,237,434	5,237,434	-
Fund balance – end of year	\$ 5,072,350	\$ 4,468,531	\$ 5,876,078	\$ 1,407,547

Eaton County Road Commission
 Required Supplementary Information
 Eaton County Road Commission
 Retired Employees' Healthcare Plan

For the Year Ended September 30, 2016

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
9/30/2009	\$ 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%
9/30/2015	3,014,486	3,815,444	800,958	79.0%	1,839,347	43.5%

Schedule of Employer Contributions

Year Ended September 30,	Annual Required Contribution	Percentage Contributed
2014	\$ 235,542	215.0%
2015	133,264	370.0%
2016	133,264	590.3%

Other Supplementary Information

Eaton County Road Commission
Detailed Schedule of Revenues – Budget and Actual
General Operating Fund
For the Year Ended September 30, 2016

	Amended Budget	Actual	Variance with Amended Budget
Property Taxes	\$ 3,962,907	\$ 3,964,993	\$ 2,086
Permits	75,000	75,358	358
Federal sources:			
Bridge	560,243	678,325	118,082
Surface transportation program	1,115,519	1,194,352	78,833
D funds	-	-	-
Other	-	-	-
Total federal sources	<u>1,675,762</u>	<u>1,872,677</u>	<u>196,915</u>
State sources:			
Motor vehicle highway funds – Act 51	8,200,000	8,315,167	115,167
Economic development fund	45,266	45,266	-
Other	1,369,449	1,392,191	22,742
Total state sources	<u>9,614,715</u>	<u>9,752,624</u>	<u>137,909</u>
Local sources:			
Local unit contributions	212,047	225,049	13,002
Interest and rentals	10,115	16,582	6,467
Other:			
Special assessments	33,089	32,038	(1,051)
Other	100,000	70,638	(29,362)
Total other	<u>133,089</u>	<u>102,676</u>	<u>(30,413)</u>
Total revenues	<u>\$ 15,683,635</u>	<u>\$ 16,009,959</u>	<u>\$ 326,324</u>

Eaton County Road Commission
Detailed Schedule of Expenditures – Budget and Actual
General Operating Fund
For the Year Ended September 30, 2016

	Amended Budget	Actual	Variance with Amended Budget
Construction:			
Primary roads	\$ -	\$ -	\$ -
Preservation – structural improvements:			
Primary roads and structures	2,488,175	2,243,254	244,921
Local roads and structures	6,004,106	5,533,196	470,910
Total preservation – structural improvements	8,492,281	7,776,450	715,831
Routine and preventative maintenance:			
Primary roads and structures, winter and traffic control	3,192,000	2,978,958	213,042
Local roads and structures, winter and traffic control	2,731,011	2,619,781	111,230
Total maintenance	5,923,011	5,598,739	324,272
Equipment:			
Direct	750,000	782,961	(32,961)
Indirect	1,100,000	1,103,522	(3,522)
Operating	250,000	219,517	30,483
Less: equipment rental	(1,900,000)	(1,873,901)	(26,099)
Total equipment, net	200,000	232,099	(32,099)
Administrative:			
Administration	850,000	830,648	19,352
Capital outlay:			
Land improvements, building and equipment	526,688	526,688	-
Less: Depreciation	(450,000)	(477,863)	27,863
Retirements	-	(11)	11
Total capital outlay, net	76,688	48,814	27,874
Debt service:			
Principal retirement	515,000	515,000	-
Interest and fiscal charges	18,513	18,495	18
Total debt service	533,513	533,495	18
Other expense	377,045	351,070	25,975
Total expenditures	\$ 16,452,538	\$ 15,371,315	\$ 1,081,223

Eaton County Road Commission
Schedule of Revenues, Expenditures, and Changes in Fund Balances by Component
General Operating Fund
For the Year Ended September 30, 2016

	<u>Primary Roads</u>	<u>Local Roads</u>	<u>County Roads</u>	<u>Total</u>
Revenue				
Property taxes	\$ -	\$ 3,964,993	\$ -	\$ 3,964,993
Permits	-	-	75,358	75,358
Intergovernmental:				
Federal sources	1,194,352	678,325	-	1,872,677
State sources	6,782,317	2,970,307	-	9,752,624
Local sources	129,191	61,595	34,263	225,049
Interest and rentals	10,275	3,634	2,673	16,582
Other	-	33,388	69,288	102,676
Total revenues	<u>8,116,135</u>	<u>7,712,242</u>	<u>181,582</u>	<u>16,009,959</u>
Expenditures				
Construction	-	-	-	-
Preservation – structural improvements	2,243,254	5,533,196	-	7,776,450
Maintenance	2,978,958	2,619,781	-	5,598,739
Equipment – net	76,058	117,139	38,902	232,099
Administrative – net	324,318	506,330	-	830,648
Capital Outlay – net	-	-	48,814	48,814
Debt principal	-	-	515,000	515,000
Interest and fiscal charges	-	-	18,495	18,495
Other	598,738	67,420	(315,088)	351,070
Total expenditures	<u>6,221,326</u>	<u>8,843,866</u>	<u>306,123</u>	<u>15,371,315</u>
Revenues over (under) expenditures	1,894,809	(1,131,624)	(124,541)	638,644
Internal transfers	(1,131,624)	1,131,624	-	-
Net change in fund balance	763,185	-	(124,541)	638,644
Fund balance – beginning of year	4,176,506	-	1,060,928	5,237,434
Fund balance – end of year	<u>\$ 4,939,691</u>	<u>\$ -</u>	<u>\$ 936,387</u>	<u>\$ 5,876,078</u>

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*

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*

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

We have audited, 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Eaton County Road Commission (Road Commission), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated February 16, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of our testing, and not to provide an opinion on the effectiveness of the entity'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.

Andrews Hooper Pavlik PLC

Okemos, Michigan
February 16, 2017