

Audited Financial Statements  
Eaton County Road Commission  
  
*Year Ended September 30, 2017  
with Report of Independent Auditors*

Eaton County Road Commission

Audited Financial Statements

Year Ended September 30, 2017

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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, 2017, 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, 2017 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.

### ***Emphasis of Matter***

As discussed in Note 12 to the financial statements, the Road Commission implemented 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*, in the current year. These standards established accounting and financial reporting standards for postemployment benefits other than pensions. As a result of implementing GASB Statement No. 75, beginning net position was restated. Our opinions are not modified with respect to this matter.

### ***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, and the Required Supplementary Information on pages 35 through 38, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The other supplementary information 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 March 7, 2018, 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  
March 7, 2018

# Eaton County Road Commission

## Management's Discussion and Analysis

September 30, 2017

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, 2017.

### **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 \$91,082,613 at the end of the fiscal year. There was an increase of \$6,193,642 in net position during 2017.

The general operating fund had an increase in fund balance for the year of \$1,353,806. Total fund balance is \$7,229,884.

### **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, 2017

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, 2017

### 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

	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Assets		
Current and other assets	\$ 8,976,661	\$ 9,677,553
Capital assets, net	85,163,696	81,001,453
Total assets	<u>94,140,357</u>	<u>90,679,006</u>
Deferred outflows of resources	12,500	25,000
Liabilities		
Long-term liabilities	1,256,984	1,301,891
Other liabilities	1,543,806	1,066,901
Total Liabilities	<u>2,800,790</u>	<u>2,368,792</u>
Deferred inflows of resources	269,454	-
Net Position		
Net investment in capital assets	84,666,196	80,011,453
Restricted – local roads millage	-	2,869
Unrestricted	6,416,417	8,320,892
Total net position	<u>\$ 91,082,613</u>	<u>\$ 88,335,214</u>



# Eaton County Road Commission

## Management's Discussion and Analysis

September 30, 2017

### Condensed Statement of Activities

	<u>Year Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Revenue		
Program revenues:		
Charges for services	\$ 650,819	\$ 365,036
Operating grants and contributions	10,578,775	9,580,172
Capital grants and contributions	2,696,950	2,045,129
General revenues:		
Property taxes	3,964,117	3,964,993
Interest earned	54,245	16,582
Miscellaneous income	10,091	5,996
Total revenue	<u>17,954,997</u>	<u>15,977,908</u>
Expenses		
Public works	11,737,648	11,158,837
Debt service – interest	23,707	29,957
Total expenses	<u>11,761,355</u>	<u>11,188,794</u>
Increase in net position	6,193,642	4,789,114
Net position, beginning of year	84,888,971	83,546,100
Cumulative effect of change in accounting principle*	-	(3,446,243)
Net position, end of year	<u>\$ 91,082,613</u>	<u>\$ 84,888,971</u>

\*GASB Statement No. 75 was implemented by the Road Commission in fiscal year 2017. Fiscal year 2016 amounts shown have not been modified to reflect the retroactive application of the change; however, the ending net position for that year was adjusted to properly state the fiscal year 2017 beginning net position.

### **Governmental Activities**

Governmental activities increased the Road Commission's net position by \$6,193,642 during fiscal year 2017. This increase in net position is primarily due to results of operations at the fund level, and an increase in infrastructure investment made possible by the county-wide property tax millage dedicated to the repair and rehabilitation of county local roads as well as a modest increase in distributions from the Michigan Transportation Fund.

### **Fund Level Financial Statements**

Beginning with the year ended September 30, 2011, the Road Commission reports its fund balance in compliance with Governmental Accounting and Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*.

# Eaton County Road Commission

## Management's Discussion and Analysis

September 30, 2017

### **Fund Level Financial Statements (continued)**

Total fund balance at September 30, 2017 was \$7,229,884, compared to \$5,876,078 at September 30, 2016, and was comprised of two components. One component is nonspendable to indicate that it was not available for spending because it has already been committed to inventory purchases and prepaid items, which are included as fund assets. The nonspendable fund balance was \$871,037 as of September 30, 2017. The remaining balance of the Road Commission's fund balance is considered unassigned. The unassigned fund balance at September 30, 2017 was \$6,358,847.

Overall, there was increase in the total fund balance of \$1,353,806 for 2017 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 2017 budget to reflect an increase in revenue (primarily from federal and state sources) of approximately \$1,050,000, with a small increase in budgeted expenditures of approximately \$17,000.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

Capital assets in total, net of accumulated depreciation, increased from \$81,001,453 to \$85,163,696 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 \$510,000 at September 30, 2017. Long-term debt at September 30, 2017 also included a compensated absences component amounting to \$298,637, 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, 2017

### **Economic Factors and Road Fund Budgetary Highlights**

On January 1, 2017, increases in the state gas tax and vehicle registration fees went into effect. For the 2017 fiscal year, this new revenue generated an additional net estimated \$800,000 in Michigan Transportation Fund (MTF) distributions. For the 2018 fiscal year, an additional \$600,000 in MTF distributions is expected, as the increased state gas tax and vehicle registration fees will be in effect for the entire fiscal year. It is the Road Commission's expectation that this increase in funding will allow for more resurfacing projects on the primary road system as well as the replacement of aging equipment. However, 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 2017 and is expected to increase by approximately 3% in 2018. 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 has fewer road and bridge projects funded primarily by federal and state grants planned for 2018, which will result in lower levels of related revenues and expenditures than in fiscal year 2017.

While the Road Commission's maintenance budget is sensitive to weather conditions, 2018 expenditures are expected to be similar to 2017.

### **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, 2017

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>			
Cash and interest bearing deposits	\$ 6,604,103	\$ -	\$ 6,604,103
Receivables:			
Motor vehicle highway funds	982,273	-	982,273
Township road agreements	309,601	-	309,601
Other	5,647	-	5,647
Inventories:			
Road materials	311,620	-	311,620
Equipment material and parts	184,417	-	184,417
Prepaid items	375,000	204,000	579,000
Capital assets:			
Assets not being depreciated	-	24,416,649	24,416,649
Assets being depreciated, net	-	60,747,047	60,747,047
Total assets	8,772,661	85,367,696	94,140,357
<b>Deferred outflows of resources</b>			
Deferred loss on refunding	-	12,500	12,500
Total assets and deferred outflows of resources	<u>\$ 8,772,661</u>	85,380,196	94,152,857
<b>Liabilities</b>			
Accounts payable	\$ 1,329,116	-	1,329,116
Accrued liabilities	148,908	-	148,908
Advances	10,753	-	10,753
Performance deposits	54,000	-	54,000
Accrued interest payable	-	1,029	1,029
Long-term liabilities:			
Due within one year	-	539,864	539,864
Due in more than one year	-	268,774	268,774
Net OPEB liability	-	448,346	448,346
Total liabilities	1,542,777	1,258,013	2,800,790
<b>Deferred inflows of resources</b>			
Related to OPEB	-	269,454	269,454
<b>Fund balance</b>			
Nonspendable – inventory and prepaid items	871,037	(871,037)	-
Unassigned	6,358,847	(6,358,847)	-
Total fund balance	7,229,884	(7,229,884)	-
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 8,772,661</u>		
<b>Net position:</b>			
Net investment in capital assets		84,666,196	84,666,196
Unrestricted		6,416,417	6,416,417
Total net position		<u>\$ 91,082,613</u>	<u>\$ 91,082,613</u>

See accompanying notes.

Eaton County Road Commission

Reconciliation of Governmental Fund Balance Sheet  
to Statement of Net Position

September 30, 2017

Fund balance – general fund	\$ 7,229,884
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 not being depreciated	24,416,649
Capital assets being depreciated, net	60,747,047
Prepaid items	204,000
Certain liabilities, such as bonds payable, are not due and payable in the current period and are not reported in the funds.	
Bonds payable	(510,000)
Unamortized deferred loss on bond refunding	12,500
Compensated absences	(298,638)
Accrued interest payable	(1,029)
Certain OPEB-related amounts, such as net OPEB liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds:	
Net OPEB liability	(448,346)
Deferred inflows of resources related to OPEB	(269,454)
Net position – governmental activities	<u><u>\$ 91,082,613</u></u>

Eaton County Road Commission

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

Year Ended September 30, 2017

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Expenditures / expenses</b>			
Current			
Public works	\$ 16,112,853	\$ (4,375,205)	\$ 11,737,648
Debt service:			
Principal	505,000	(505,000)	-
Interest	12,225	11,482	23,707
Total expenditures / expenses	16,630,078	(4,868,723)	11,761,355
<b>Program revenues</b>			
Charges for services	679,706	(28,887)	650,819
Operating grants and contributions	10,578,775	-	10,578,775
Capital grants and contributions	2,696,950	-	2,696,950
Total program revenues	13,955,431	(28,887)	13,926,544
Net program revenues			2,165,189
<b>General revenues</b>			
Property taxes	3,964,117	-	3,964,117
Interest earned	54,245	-	54,245
Miscellaneous income	10,091	-	10,091
Total general revenues	4,028,453	-	4,028,453
Net change in fund balance	1,353,806	(1,353,806)	-
Change in net position		6,193,642	6,193,642
Fund balance / net position – beginning of year	5,876,078	82,459,136	88,335,214
Cumulative effect of change in accounting principle	-	(3,446,243)	(3,446,243)
Fund balance / net position – end of year	<u>\$ 7,229,884</u>	<u>\$ 83,852,729</u>	<u>\$ 91,082,613</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, 2017

Net change in fund balance – general fund	\$ 1,353,806
<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	9,647,705
Depreciation expense	(5,484,656)
Gain on disposal of capital assets	(806)
<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	(28,887)
<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	505,000
<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	(11,747)
Amortization of deferred charge on refunding	(12,500)
Change in prepaid items	11,409
Change in accrued interest	1,018
Net OPEB liability and related deferred amounts	213,300
Change in net position – governmental activities	\$ 6,193,642



Eaton County Road Commission  
Statement of Fiduciary Net Position  
Year Ended September 30, 2017

	<b>Employee Health Care Benefit Trust</b>
<b>Assets</b>	
Investments, at fair value:	
Mutual funds	\$ 4,324,782
Accrued interest	9,503
	<hr/>
Net position restricted for other postemployment benefits	<u>\$ 4,334,285</u>

Eaton County Road Commission

Statement of Changes in Fiduciary Net Position

Year Ended September 30, 2017

	<b>Employee Health Care Benefit Trust</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 269,549
Net change in fair value of investments	506,104
Total additions	<u>775,653</u>
<b>Deductions</b>	
Benefit payments	269,549
Administration	38,049
Total deductions	<u>307,598</u>
Change in net position	468,055
Net position restricted for other postemployment benefits:	
Beginning of the year	<u>3,866,230</u>
End of the year	<u><u>\$ 4,334,285</u></u>

# Eaton County Road Commission

## Notes to Financial Statements

September 30, 2017

### **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 (Road Commission Board) appointed by the County Board of Commissioners. The Road Commission provides services to 16 townships in Eaton County and maintains over 1,173 miles of local and primary roads.

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

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

#### **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, 2017

### **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, 2017

### 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 Health Care 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, 2017 were levied and billed on December 1, 2016. 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. During the year, the Road Commission incurred expenditures which were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary – preservation/structural improvements	\$ 4,374,327	\$ 4,871,912	\$ 497,585
Other	324,867	330,059	5,192

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, 2017

### **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, 2017

### 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 50 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	50
Equipment	4-10
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, 2017

### **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 Road Commission reports deferred inflows of resources for the change in expected and actual investment returns in its OPEB plan.

#### **Postemployment Benefits Other Than Pensions (OPEB)**

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



# Eaton County Road Commission

## Notes to Financial Statements

September 30, 2017

### 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	\$ 6,604,103	
Statement of fiduciary net position		
Employee Health Care Benefit Trust		
Fund investments	4,334,285	
Total	<u>\$ 10,938,388</u>	
	<b>Carrying Amount</b>	<b>Bank Balance</b>
Petty cash	\$ 250	\$ -
Checking account	30,489	933,423
Held by Eaton County – bank money markets	6,573,364	6,573,364
Investments	4,334,285	4,334,285
	<u>\$ 10,938,388</u>	<u>\$ 11,841,072</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, 2017

### **2. Cash Deposits and Investments (continued)**

#### **Fair Value Measurements**

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

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

The Road Commission has the following recurring fair value measurements as of September 30, 2017:

- Mutual funds held by the Employee Health Care Benefit Trust totaling \$4,334,285 as of September 30, 2017 are valued using prices quoted in active markets for those securities (Level 1 inputs).

# Eaton County Road Commission

## Notes to Financial Statements

September 30, 2017

### 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.

*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, 2017, \$250,000 of the Road Commission's bank balances were insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$6,573,364 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, 2017 were in an external investment pool.

# Eaton County Road Commission

## Notes to Financial Statements

September 30, 2017

### 3. Capital Assets

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 243,002	\$ -	\$ -	\$ 243,002
Land improvements – right of ways	788,636	-	-	788,636
Land improvements – infrastructure	23,385,011	-	-	23,385,011
<b>Total capital assets not being depreciated</b>	<b>24,416,649</b>	<b>-</b>	<b>-</b>	<b>24,416,649</b>
Capital assets being depreciated:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	6,533,022	2,798	-	6,535,820
Equipment:				
Road	6,787,185	278,677	(196,737)	6,869,125
Shop	99,152	-	(2,000)	97,152
Office	244,828	5,414	(20,298)	229,944
Engineering	121,614	29,019	(76,852)	73,781
Yard and storage	574,904	-	-	574,904
Infrastructure – roads	81,200,286	8,319,053	(4,097,847)	85,421,492
Infrastructure – bridges	21,869,373	538,066	(117,493)	22,289,946
Infrastructure – traffic signals	2,017,317	474,678	-	2,491,995
<b>Total capital assets being depreciated</b>	<b>119,498,240</b>	<b>9,647,705</b>	<b>(4,511,227)</b>	<b>124,634,718</b>
Less accumulated depreciation for:				
Depletable assets	50,559	-	-	50,559
Buildings and improvements	2,270,065	130,952	-	2,401,017
Equipment:				
Road	5,655,645	356,022	(195,931)	5,815,736
Shop	87,711	2,108	(2,000)	87,819
Office	240,033	3,097	(20,298)	222,832
Engineering	112,915	2,890	(76,852)	38,953
Yard and storage	557,835	5,272	-	563,107
Infrastructure – roads	43,182,596	4,414,606	(4,097,847)	43,499,355
Infrastructure – bridges	9,494,236	432,576	(117,493)	9,809,319
Infrastructure – traffic signals	1,261,841	137,133	-	1,398,974
<b>Total accumulated depreciation</b>	<b>62,913,436</b>	<b>5,484,656</b>	<b>(4,510,421)</b>	<b>63,887,671</b>
<b>Total assets being depreciated, net</b>	<b>56,584,804</b>	<b>4,163,049</b>	<b>(806)</b>	<b>60,747,047</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 81,001,453</b>	<b>\$ 4,163,049</b>	<b>\$ (806)</b>	<b>\$ 85,163,696</b>

Eaton County Road Commission

Notes to Financial Statements

September 30, 2017

**4. Long-Term Debt**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
MTF Refunding Bonds – 2013	\$1,015,000	\$ -	\$ (505,000)	\$ 510,000	\$ 510,000
Compensated absences	286,891	185,580	(173,834)	298,637	29,864
	<u>\$1,301,891</u>	<u>\$ 185,580</u>	<u>\$ (678,834)</u>	<u>\$ 808,637</u>	<u>\$ 539,864</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, 2017, excluding sick and vacation leave payable, is as follows:

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 510,000	\$ 6,171	\$ 516,171
Total	<u>\$ 510,000</u>	<u>\$ 6,171</u>	<u>\$ 516,171</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, 2017

### **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 \$203,987 for the year ended September 30, 2017.

### **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, 2017

### **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, 2017.

### **10. Postemployment Benefits Other Than Pensions**

#### **Plan Description**

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

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

# Eaton County Road Commission

## Notes to Financial Statements

September 30, 2017

### 10. Postemployment Benefits Other Than Pensions (continued)

#### Plan Description (continued)

*Plan Membership.* As of September 30, 2017, the Plan membership consisted of the following:

Inactive plan members or beneficiaries	
currently receiving benefit payments	33
Inactive plan members entitled to but not yet	
receiving benefit payments	-
Active plan members	<u>33</u>
Total	<u><u>66</u></u>

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

*Contributions.* The contribution requirements of Plan members and the Road Commission are established and may be amended by the Road Commission Board. Contribution rates are established based on an actuarially determined rate. For the year ended September 30, 2017, the Road Commission's average contribution rate was 13.60 percent of covered-employee payroll. Plan members are required to contribute the cost of healthcare premiums in excess of their individual benefit maximum to the Plan.

Retirees who retired before March 9, 2004 are subject to no maximum benefit limitations; retirees who retired between March 10, 2004 and September 30, 2015 receive a maximum employer contribution of \$500 per month for one person coverage and \$1,000 per month for two person coverage; and retirees who retire after September 30, 2015 receive a maximum employer contribution of \$550 per month for one person coverage and \$1,100 per month for two person coverage. Also, there may be an additional amount to prefund benefits as determined annually by the Road Commission Board. For the year ended September 30, 2017, the Road Commission contributed \$269,549 to the Plan.

#### Investments

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



Eaton County Road Commission

Notes to Financial Statements

September 30, 2017

**10. Postemployment Benefits Other Than Pensions (continued)**

**Investments (continued)**

The following was the Plan’s target asset allocation as of September 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Global equity	60.00%
Global fixed income	34.50%
Real assets	0.00%
Diversifying strategies	1.20%
Cash	4.30%
	<u>100.00%</u>

*Rate of Return.* For the year ended September 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 8.54 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net OPEB Liability**

The Road Commission’s net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total OPEB liability was determined as of September 30, 2017 using the alternative measurement method. The total OPEB liability was calculated based on the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	Included in investment rate of return
Salary increases	2.00%
Investment rate of return	4.56% including inflation
Healthcare cost trend rates	Pre-65 – 8.00% graded to 5.00% over 6 years; Medicare eligible – 5% in all years - Dental and Vision: 4.00%
Mortality	As set forth in IRS Regulations for 2018 (1.430(h)(3)) for Non-annuitants, separately for males and females as well as annuitants and non-annuitants. Based on RP-2000 Tables with Scale AA.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2017

**10. Postemployment Benefits Other Than Pensions (continued)**

**Net OPEB Liability (continued)**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of September 30, 2017 are summarized in the following table:

<b>Asset Class</b>	<b>Long-Term Expected Rate of Return</b>
Global equity	6.30%
Global fixed income	2.07%
Real assets	7.12%
Diversifying strategies	5.64%
Cash	0.00%

*Discount Rate.* The discount rate used to measure the total OPEB liability was 4.56 percent. The projection of cash flows used to determine the discount rate assumed that Road Commission advance funding contributions will be \$0 in 2017 followed by \$300,000 per year until fully funded. Based on those assumptions, the Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Eaton County Road Commission

Notes to Financial Statements

September 30, 2017

**10. Postemployment Benefits Other Than Pensions (continued)**

**Changes in the Net OPEB Liability**

<b>Changes in Net OPEB Liability</b>	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability (a)</b>	<b>Plan Net Position (b)</b>	<b>Net OPEB Liability (a) – (b)</b>
<b>Balance as of September 30, 2016</b>	\$ 4,797,330	\$ 3,866,230	\$ 931,100
Service cost	40,396	-	40,396
Interest	214,454	-	214,454
Contributions to OPEB trust	-	-	-
Contributions/benefit paid from general operating funds	-	269,549	(269,549)
Net investment income	-	506,104	(506,104)
Benefit payments, including refunds	(269,549)	(269,549)	-
Administrative expenses	-	(38,049)	38,049
<b>Total changes</b>	<b>(14,699)</b>	<b>468,055</b>	<b>(482,754)</b>
<b>Balance as of September 30, 2017</b>	<b>\$ 4,782,631</b>	<b>\$ 4,334,285</b>	<b>\$ 448,346</b>

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.* The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.56 percent) and 1-percentage point higher (5.56 percent) than the current discount rate:

	<b>1 Percent Decrease 3.56 Percent</b>	<b>Current Discount 4.56 Percent</b>	<b>1 Percent Increase 5.56 Percent</b>
Net OPEB liability	\$ 965,012	\$ 448,346	\$ 12,288

Eaton County Road Commission

Notes to Financial Statements

September 30, 2017

**10. Postemployment Benefits Other Than Pensions (continued)**

**Changes in the Net OPEB Liability (continued)**

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (7.00 percent decreasing to 4.00 percent) and 1-percentage point higher (9.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	<b><u>1 Percent Decrease</u></b>	<b><u>Current Rates</u></b>	<b><u>1 Percent Increase</u></b>
Net OPEB liability	\$ 385,729	\$ 448,346	\$ 512,591

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

For the year ended September 30, 2017, the Road Commission recognized OPEB expense of \$56,249. As of September 30, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Net difference between projected and actual investment earnings on OPEB plan investments	\$ -	\$ 269,454
Total	\$ -	\$ 269,454

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

<b><u>Year Ending September 30</u></b>	<b><u>Amount</u></b>
2018	\$ (67,363)
2019	(67,363)
2020	(67,363)
2021	(67,365)

# Eaton County Road Commission

## Notes to Financial Statements

September 30, 2017

### 11. Net Investment in Capital Assets

The composition of net investment in capital assets as of September 30, 2017, was as follows:

Capital assets:	
Not being depreciated	\$ 24,416,649
Being depreciated, net	60,747,047
	<hr/>
	85,163,696
Related debt:	
Bonds and installment loans payable	510,000
Deferred loss on refunding	(12,500)
	<hr/>
	497,500
	<hr/>
Net investment in capital assets	\$ 84,666,196

### 12. Adoption of New Standards

During the current year, the Road Commission implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by OPEB plans. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans are now required to include in the financial statements more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated.

During the current year, the Road Commission implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard requires the Road Commission to recognize on the face of the financial statements its net OPEB liability. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information. As a result of implementing this statement, the beginning net position was restated to \$84,888,971.

### 13. Upcoming Accounting Pronouncements

In January 2017, the GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the year ending September 30, 2020.

## Required Supplementary Information

# Eaton County Road Commission

## Budgetary Comparison Schedule

Year Ended September 30, 2017

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 3,964,067	\$ 3,964,067	\$ 3,964,117	\$ 50
Permits	75,000	85,000	87,227	2,227
Intergovernmental:				-
Federal sources	1,319,235	1,967,860	2,503,173	535,313
State sources	10,122,003	10,407,679	10,772,552	364,873
Local sources	475,875	598,332	519,100	(79,232)
Interest and rentals	13,765	51,481	54,245	2,764
Other	129,413	77,311	83,470	6,159
Total revenues	16,099,358	17,151,730	17,983,884	832,154
<b>Expenditures</b>				
Current:				
Construction – primary	-	-	-	-
Primary – preservation/structural improvements	2,543,102	4,374,327	4,871,912	(497,585)
Local – preservation/structural improvements	5,419,228	4,604,073	4,459,884	144,189
Primary maintenance	3,800,000	3,450,000	3,202,588	247,412
Local maintenance	3,000,000	2,950,200	2,758,739	191,461
Equipment – net	-	225,000	(19,475)	244,475
Administrative – net	850,000	850,000	676,992	173,008
Other	450,000	324,867	330,059	(5,192)
Capital outlay – net	538,000	(160,712)	(167,846)	7,134
Debt service	517,282	517,282	517,225	57
Total expenditures	17,117,612	17,135,037	16,630,078	504,959
Net change in fund balance	(1,018,254)	16,693	1,353,806	1,337,113
Fund balance – beginning of year	5,876,078	5,876,078	5,876,078	-
Fund balance – end of year	\$ 4,857,824	\$ 5,892,771	\$ 7,229,884	\$ 1,337,113

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

For the Year Ended September 30, 2017

**Schedule of Changes in Net OPEB Liability and Related Ratios**

	<b>2017</b>
<b>Total OPEB liability</b>	
Service cost	\$ 40,396
Interest	214,454
Changes of benefit terms	-
Difference between expected and actual experience	
Changes of assumptions	-
Benefit payments	(269,549)
Net change in total OPEB liability	(14,699)
Total OPEB liability – beginning of year	4,797,330
Total OPEB liability – end of year	\$ 4,782,631
 <b>Plan fiduciary net position</b>	
Contributions – employer	\$ 269,549
Net investment income	506,104
Benefit payments	(269,549)
Administrative expenses	(38,049)
Net change in plan fiduciary net position	468,055
Plan fiduciary net position – beginning of year	3,866,230
Plan fiduciary net position – end of year	\$ 4,334,285
 Net OPEB liability – ending	\$ 448,346
 Plan fiduciary net position as a percentage of total OPEB liability	90.63%
 Covered employee payroll	\$ 1,981,402
Net OPEB liability as a percentage of covered employee payroll	22.63%

OPEB schedules are intended to disclose information for ten years. Additional years will be added as they become available.

**Notes to Schedule of Changes in Net OPEB Liability and Related Ratios**

**Benefit Changes** – There were no benefit changes during the year.

**Changes in Assumptions** – There were no changes in assumptions during the year.



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

For the Year Ended September 30, 2017

**Schedule of Contributions**

	<b>2017</b>
Actuarially determined contribution	\$ 121,673
Contributions in relation to the actuarially determined contribution	269,549
Contribution deficiency (excess)	\$ (147,876)
Covered employee payroll	\$ 1,981,402
Contributions as a percentage of covered employee payroll	13.60%

OPEB schedules are intended to disclose information for ten years. Additional years will be added as they become available.

**Notes to Schedule of Contributions**

**Methods and assumptions used to determine contribution rates:**

Valuation Date	September 30, 2017
Actuarial Cost Method	Entry age cost method
Amortization Method	Level percentage of compensation
Asset Valuation Method	Equal to market value of assets
Discount Rate	4.56%
Payroll Inflation	2.00%
Return on Plan Assets	4.56%
Healthcare Cost Trend Rates	Pre-65 – 8.00% graded to 5.00% over 6 years; Medicare eligible – 5.00% in all years; Dental and Vision – 4.00%
Mortality	2018 IRS 1.430(h)(3) Annuitant and Non-annuitant (sex distinct) tables

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

For the Year Ended September 30, 2017

**Schedule of Investment Returns**

**2017**

Annual money-weighted rate of return, net of  
investment expense

8.54%

OPEB schedules are intended to disclose information for ten years. Additional years will be added as they become available.

## Other Supplementary Information

Eaton County Road Commission  
Detailed Schedule of Revenues – Budget and Actual  
General Operating Fund  
For the Year Ended September 30, 2017

	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
Property Taxes	\$ 3,964,067	\$ 3,964,117	\$ 50
Permits	85,000	87,227	2,227
Federal sources:			
Bridge	331,621	359,214	27,593
Surface transportation program	1,314,712	1,822,432	507,720
D funds	-	-	-
Other	321,527	321,527	-
Total federal sources	<u>1,967,860</u>	<u>2,503,173</u>	<u>535,313</u>
State sources:			
Motor vehicle highway funds – Act 51	10,210,000	10,578,775	368,775
Economic development fund	136,000	126,424	(9,576)
Other	61,679	67,353	5,674
Total state sources	<u>10,407,679</u>	<u>10,772,552</u>	<u>364,873</u>
Local sources:			
Local unit contributions	598,332	519,100	(79,232)
Interest and rentals	51,481	54,245	2,764
Other:			
Special assessments	27,311	27,311	-
Other	50,000	56,159	6,159
Total other	<u>77,311</u>	<u>83,470</u>	<u>6,159</u>
Total revenues	<u>\$ 17,151,730</u>	<u>\$ 17,983,884</u>	<u>\$ 832,154</u>

Eaton County Road Commission  
Detailed Schedule of Expenditures – Budget and Actual  
General Operating Fund  
For the Year Ended September 30, 2017

	Amended Budget	Actual	Variance with Amended Budget
Construction:			
Primary roads	\$ -	\$ -	\$ -
Preservation – structural improvements:			
Primary roads and structures	4,374,327	4,871,912	(497,585)
Local roads and structures	4,604,073	4,459,884	144,189
Total preservation – structural improvements	8,978,400	9,331,796	(353,396)
Routine and preventative maintenance:			
Primary roads and structures, winter and traffic control	3,450,000	3,202,588	247,412
Local roads and structures, winter and traffic control	2,950,200	2,758,739	191,461
Total maintenance	6,400,200	5,961,327	438,873
Equipment:			
Direct	825,000	786,404	38,596
Indirect	1,200,000	1,045,062	154,938
Operating	300,000	231,962	68,038
Less: equipment rental	(2,100,000)	(2,082,903)	(17,097)
Total equipment, net	225,000	(19,475)	244,475
Administrative:			
Administration	850,000	676,992	173,008
Capital outlay:			
Land improvements, building and equipment	314,288	322,245	(7,957)
Less: Depreciation	(475,000)	(489,285)	14,285
Retirements	-	(806)	806
Total capital outlay, net	(160,712)	(167,846)	7,134
Debt service:			
Principal retirement	505,000	505,000	-
Interest and fiscal charges	12,282	12,225	57
Total debt service	517,282	517,225	57
Other expense	324,867	330,059	(5,192)
Total expenditures	\$ 17,135,037	\$ 16,630,078	\$ 504,959

Eaton County Road Commission  
Schedule of Revenues, Expenditures, and Changes in Fund Balances by Component  
General Operating Fund  
For the Year Ended September 30, 2017

	<u>Primary Roads</u>	<u>Local Roads</u>	<u>County Roads</u>	<u>Total</u>
<b>Revenue</b>				
Property taxes	\$ -	\$ 3,964,117	\$ -	\$ 3,964,117
Permits	-	-	87,227	87,227
Intergovernmental:				
Federal sources	2,143,959	359,214	-	2,503,173
State sources	7,593,708	3,178,844	-	10,772,552
Local sources	374,270	99,735	45,095	519,100
Interest and rentals	44,356	1,481	8,408	54,245
Other	-	27,311	56,159	83,470
Total revenues	<u>10,156,293</u>	<u>7,630,702</u>	<u>196,889</u>	<u>17,983,884</u>
<b>Expenditures</b>				
Construction	-	-	-	-
Preservation – structural improvements	4,871,912	4,459,884	-	9,331,796
Maintenance	3,202,588	2,758,739	-	5,961,327
Equipment – net	(6,347)	(9,369)	(3,759)	(19,475)
Administrative – net	357,440	319,552	-	676,992
Capital Outlay – net	-	-	(167,846)	(167,846)
Debt principal	-	-	505,000	505,000
Interest and fiscal charges	-	-	12,225	12,225
Other	436,720	170,954	(277,615)	330,059
Total expenditures	<u>8,862,313</u>	<u>7,699,760</u>	<u>68,005</u>	<u>16,630,078</u>
Revenues over (under) expenditures	1,293,980	(69,058)	128,884	1,353,806
Internal transfers	(69,058)	69,058	-	-
Net change in fund balance	1,224,922	-	128,884	1,353,806
Fund balance – beginning of year	4,939,691	-	936,387	5,876,078
Fund balance – end of year	<u>\$ 6,164,613</u>	<u>\$ -</u>	<u>\$ 1,065,271</u>	<u>\$ 7,229,884</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, 2017, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated March 7.

**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.

*Andrew Hooper Paulik PLC*

Okemos, Michigan  
March 7, 2018