

# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

Nick A. Khouri, State Treasurer



Report on  
Financial Statements

**Allegan County  
Road Commission**

**A Component Unit of  
Allegan County**

**December 31, 2017**

ALLEGAN COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

(June 5, 2018)

Robert T. Kaarlie  
Chairman

John Kleinheksel  
Vice-Chairman

James Rybicki  
Member

Craig Atwood  
Managing Director

Claire R. Patrick  
Business Manager

COUNTY POPULATION--2010  
111,408

STATE EQUALIZED VALUATION--2017  
\$6,090,428,572



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

June 5, 2018

Board of County Road Commissioners  
Allegan County Road Commission  
1308 Lincoln Road  
Allegan, Michigan 49010

Independent Auditor's Report

Dear Board Members:

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 Allegan County Road Commission, a component unit of Allegan County, Michigan, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Allegan County Road Commission's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

An audit 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 Allegan County Road Commission, Allegan County, Michigan, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through seven, the budgetary comparison information in Exhibits I and J, and pension trend data, and the schedule of funding progress for other postemployment benefits 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.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits K through M are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits K through M are the responsibility of management and were 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 accompanying supplementary and related information presented in Exhibits K through M are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2018, on our consideration of the Allegan County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Allegan County Road Commission's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Community Engagement and Finance Division

ALLEGAN COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	1
BASIC FINANCIAL STATEMENTS -- GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS	
EXHIBIT A – Statement of Net Position .....	8
EXHIBIT B – Statement of Activities.....	9
EXHIBIT C – Balance Sheet--Governmental Fund .....	10
EXHIBIT D – Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position .....	11
EXHIBIT E – Statement of Revenues, Expenditures, and Changes in Fund Balance--Governmental Fund .....	12
EXHIBIT F – Reconciliation of the Governmental Fund--Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	13
EXHIBIT G – Statement of Net Position--Fiduciary Fund .....	14
EXHIBIT H – Statement of Changes in Net Position--Fiduciary Fund .....	15
NOTES TO FINANCIAL STATEMENTS.....	16
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE 1 – Schedule of Changes in the Road Commission’s Net Pension Liability and Related Ratios.....	41
SCHEDULE 2 – Schedule of Road Commission’s Contributions .....	42
SCHEDULE 3 – Schedule of Funding Progress--Other Postemployment Benefits.....	43
EXHIBIT I – General Operating Fund--Schedule of Revenues-- Budgetary Comparison Schedule.....	44
EXHIBIT J – General Operating Fund--Schedule of Expenditures-- Budgetary Comparison Schedule.....	45

ALLEGAN COUNTY ROAD COMMISSION

TABLE OF CONTENTS  
(CONTINUED)

	<u>Page</u>
SUPPLEMENTARY INFORMATION AND SCHEDULES	
EXHIBIT K – General Operating Fund--Analysis of Changes in Fund Balances .....	46
EXHIBIT L – General Operating Fund--Analysis of Revenues .....	47
EXHIBIT M – General Operating Fund--Analysis of Expenditures.....	48
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	49
Report to Those Charged with Governance.....	51

ALLEGAN COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2017

Our discussion and analysis of the Allegan County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended December 31, 2017.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on Exhibits A and B provide information about the activities of the Road Commission as a whole and present a longer-term view of the Road Commission's finances. Fund financial statements start with Exhibit C. The fund statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide statements by providing information about the Road Commission's general operating fund.

Reporting the Road Commission as a Whole

*The Statement of Net Position and the Statement of Activities*

One of the most important questions asked about the Road Commission's finances is, "Is the Road Commission as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Road Commission's net position and changes in them. You can think of the Road Commission's net position - the difference between assets and liabilities - as one way to measure the Road Commission's financial health, or financial position. Over time, increases or decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Road Commission's property tax base and the condition of Road Commission's infrastructure, to assess the overall health of the Road Commission.

In the Statement of Net Position and the Statement of Activities, the Road Commission presents Governmental activities. All of the Road Commission's basic services are reported here. State and Federal grants along with township contributions finance most activities.



ALLEGAN COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2017

Report the Road Commission's Major Fund

*Fund Financial Statements*

The Road Commission currently presents only a general operating fund, which is a governmental fund. All of the Road Commission's basic services are reported in this fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The fund financial statements provide a detailed short-term view of the Road Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements as Exhibits D and F.

*Additional Required Supplementary Information (RSI)*

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules, as well as pension trend data and the schedule of funding progress for other postemployment benefits.

*Other Supplementary Information*

Other supplementary information includes combining financial statements. The Road Commission's general fund is split between the primary road, local road and county road commissions funds to comply with the reporting provisions issued by the Michigan Department of Transportation under 1951 Public Act (PA) 51.

The Road Commission as a Whole

The Road Commission's net position increased from \$192,198,876 to \$200,280,481 for the year ended December 31, 2017. This is a 4.2% increase over 2016's net position. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Road Commission's governmental activities.

ALLEGAN COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2017

Table 1  
Net Position of Governmental Activities

	12/31/16 Governmental Activities	12/31/17 Governmental Activities	Variance
Current and Other Assets	\$ 10,994,692	\$ 13,621,015	\$ 2,626,323
Net Capital Assets	<u>199,398,117</u>	<u>205,283,337</u>	<u>5,885,220</u>
<b>Total Assets</b>	<u>210,392,809</u>	<u>218,904,352</u>	<u>8,511,543</u>
Deferred Outflow of Resources	<u>2,722,198</u>	<u>2,254,603</u>	<u>(467,595)</u>
Current Liabilities	507,629	741,180	233,551
Non-current Liabilities	<u>17,135,375</u>	<u>16,745,486</u>	<u>(389,889)</u>
<b>Total Liabilities</b>	<u>17,643,004</u>	<u>17,486,666</u>	<u>(156,338)</u>
Deferred Inflow of Resources	<u>3,273,127</u>	<u>3,391,808</u>	<u>118,681</u>
<b>Total Deferred Inflow of Resources</b>	<u>3,273,127</u>	<u>3,391,808</u>	<u>118,681</u>
<b>Net Position</b>			
Net Investment in Capital Assets	193,010,012	199,100,127	6,090,115
Restricted/(Unrestricted)	<u>(811,136)</u>	<u>1,180,354</u>	<u>1,991,490</u>
<b>Total Net Position</b>	<u>\$ 192,198,876</u>	<u>\$ 200,280,481</u>	<u>\$ 8,081,605</u>

The Road Commission's governmental activities total net position increased by 4.2% or \$8,081,605. Total net investment in capital assets increased \$6,090,115 primarily due to the road commission investing funds in the county's road and bridge infrastructure. The restricted/unrestricted net position are the funds used for the Road Commission's operations within the provisions of 1951 PA 51. The increase in the unrestricted net position (in the amount of \$1,991,490 noted above) was due to primarily to an increase in gas tax approved by the voters that went into effect at the beginning of the fiscal year.

ALLEGAN COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2017

Table 2  
Changes in Net Position of Governmental Activities

	<u>2016</u>	<u>2017</u>	<u>Difference</u>
<b>Program Revenue</b>			
Licenses and Permits	\$ 56,180	\$ 57,553	\$ 1,373
Federal Grants	1,451,885	3,711,972	2,260,087
State Grants	9,594,424	13,747,641	4,153,217
Contributions From Local Units	8,512,429	7,618,712	(893,717)
Charges for Services	57,899	21,117	(36,782)
Investment Earnings	44,405	32,934	(11,471)
Other Contributions	16,825	172,747	155,922
<b>General Revenue</b>			
Taxes	3,648,621	3,401,283	(247,338)
Gain/(Loss) on Equipment Disposal	199,282	15,563	(183,719)
<b>Total Revenue</b>	<u>23,581,950</u>	<u>28,779,522</u>	<u>5,197,572</u>
<b>Expenses</b>			
Primary Road Maintenance	5,548,532	3,505,237	(2,043,295)
Local Road Maintenance	7,603,961	8,068,553	464,592
Non-Road Projects	-	513,540	513,540
Net Equipment Expense	(722,261)	(331,410)	390,851
Net Administrative Expense	826,894	871,413	44,519
Infrastructure Depreciation Expense	7,081,041	7,595,098	514,057
Compensated Absences	21,936	(14,117)	(36,053)
Pension Expense	549,630	296,717	(252,913)
Interest Expense	198,386	192,886	(5,500)
<b>Total Expenses</b>	<u>21,108,119</u>	<u>20,697,917</u>	<u>(410,202)</u>
<b>Change in Net Position</b>	<u>2,473,831</u>	<u>8,081,605</u>	<u>5,607,774</u>
<b>Ending Net Position</b>	<u>\$ 192,198,876</u>	<u>\$ 200,280,481</u>	<u>\$ 8,081,605</u>

*Governmental Activities*

The Road Commission's governmental activities revenues increased 22% or \$5,197,572, while expenses decreased 2% or \$410,202 as compared with the prior fiscal year. The increase in revenue was primarily due to a increase in Federal and State grants for road improvements, along with the increase in the gas tax. The expenses decreased primarily due to the decreased projects performed on the primary roads.

## ALLEGAN COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

#### THE ROAD COMMISSION'S FUND

As the Road Commission completed the year, its general operating fund (as presented in the balance sheet on Exhibit C) reported a fund balance of \$9,488,027 which is more than last year's \$7,213,936. The primary reasons for the General Operating Fund's increase is mirrored by the governmental activities analysis highlighted in the prior paragraph.

#### GENERAL OPERATING FUND BUDGETARY HIGHLIGHT

Over the course of the year, the Board of County Road Commissioners revised the budget several times. These budget amendments fall into two categories. The first category includes amendments based on the Federal and State grants received or not received for road and bridge projects. The second category includes year-end adjustments to account for accruals and then the spread of the distributive and non-distributive expenses incurred by the Road Commission.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### *Capital Assets*

As of December 31, 2017, the Road Commission had \$205,283,337 invested in a broad range of capital assets, including land, buildings, equipment, roads, and bridges. This amount represents a net increase (including additions and deductions) of \$5,885,220.

ALLEGAN COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2017

Table 3  
Capital Assets at Year-End

	12/31/16	12/31/17
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 139,787	\$ 139,787
Land/Right of Way	2,065,942	2,087,360
Infrastructure--Land and Improvements	91,183,508	93,559,023
Subtotal	93,389,237	95,786,170
Capital Assets Being Depreciated		
Buildings	9,789,869	9,807,607
Road Equipment	13,371,534	14,160,857
Shop Equipment	124,368	124,368
Office Equipment	67,008	67,008
Engineer's Equipment	38,004	47,184
Engineer's Equipment	1,065,073	1,052,529
Infrastructure--Traffic Signals	63,924	63,924
Infrastructure--Bridges	23,147,361	25,471,768
Infrastructure--Roads	137,193,096	142,559,629
Subtotal	184,860,237	193,354,874
Total Capital Assets	278,249,474	289,141,044
Total Accumulated Depreciation	(78,851,357)	(83,857,707)
Total Net Capital Assets	\$ 199,398,117	\$ 205,283,337

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 2,324,407
Resurfacing Projects and Related Land/Right of Way	11,472,188
Building	17,739
Trucks/Equipment	939,306
Shop/Engineer/Office Equipment	33,793
Total Additions	\$ 14,787,433

The Road Commission's fiscal-year 2018 capital budget calls for it to continue to spend funds for equipment purchases and on road and bridge projects. More detailed information about capital assets can be found in Note D to the financial statements.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2017

Debt

At the fiscal year end, the Road Commission had \$6,183,210 in bonds payable versus \$6,388,105 during the prior period, a decrease of \$204,895 or 3%. The Road Commission also records other debt in the form of employee vested benefits which is not shown below. More detailed information about the debt of the Road Commission can be found in Note E to the financial statements.

Table 4  
Outstanding Debt, at Year-End

	<u>2016</u>	<u>2017</u>	<u>Variance</u>
Unamortized Bond Premium	\$ 88,105	\$ 83,210	\$ (4,895)
Bonds Payable	<u>6,300,000</u>	<u>6,100,000</u>	<u>(200,000)</u>
Total	<u>\$ 6,388,105</u>	<u>\$ 6,183,210</u>	<u>\$ (204,895)</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The Board of County Road Commissioners considered many factors when setting the fiscal year 2017 budget. The economy and the weather are two factors that make budgeting expenditures difficult. The economy has affected both revenues and expenditures. MTF funds increased in 2017 by 32.86% due to the increase in Fuel Tax and Registration Fees. The Road Commission took a conservative approach in spending the increase in funds. Funds for OPEB costs were set aside. Projects were carefully selected and only replaced necessary positions as people retire so that our solvency remains intact.

The budgeted overall revenues for 2018 will reflect the increase in Fuel Tax and Registration Fees. As we have realized the new revenues more projects were added. The new revenues will provide for new permanent employees to our crew for better coverage of the Allegan County Road Commission. While our operating funds are increasing, it is still difficult to keep State and Federal grants at a consistent dollar amount. We will continue with our county-wide primary millage funded by our local citizens. We will strive to perform necessary maintenance. Our townships continue to provide a substantial part of our funding. Townships contributed 26.24% of 2017 revenues. The Allegan County Road Commission strives to provide excellent service with the available funds.

CONTACTING THE ROAD COMMISSION’S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission’s finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Allegan County Road Commission's administrative offices at 1308 Lincoln Road, Allegan, Michigan 49010.

ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF NET POSITION  
December 31, 2017

EXHIBIT A

ASSETS

Cash	\$ 4,119,314
Investments	590,005
Accounts Receivable	
Taxes	3,200,036
Sundry Accounts	274,672
Interest	111
Michigan Transportation Funds	1,949,839
State--Other	7,878
Due From Townships Road Agreements	2,129,755
Inventories	
Road Materials	602,906
Equipment Parts and Materials	630,627
Prepaid Expenses	115,872
Capital Assets-Non-depreciating	95,786,170
Capital Assets-Depreciating	109,497,167
Total Assets	<u>218,904,352</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflow-Investments	533,350
Deferred Outflow-Change in Experience	129,688
Deferred Outflow-Change in Assumptions	317,829
Deferred Outflow Employer Contributions	1,273,736
Total Deferred Outflow of Resources	<u>2,254,603</u>

LIABILITIES

Current Liabilities

Accounts Payable	361,284
Due to State of Michigan	211,666
Accrued Liabilities	150,750
Performance Bonds Payable	17,480

Non-current Liabilities

Unamortized Bond Premium--Due in One Year	4,895
Unamortized Bond Premium--Due in More Than One Year	78,315
Bonds Payable--Due in One Year	250,000
Bonds Payable--Due in More Than One Year	5,850,000
Vested Employee Benefits Payable--Due Within One Year	221,085
Vested Employee Benefits Payable--Due in More Than One Year	155,526
Net Pension Liability	10,185,665

Total Liabilities	<u>17,486,666</u>
-------------------	-------------------

DEFERRED INFLOW OF RESOURCES

Unavailable Revenue--Property Taxes	<u>3,391,808</u>
Total Deferred Inflow of Resources	<u>3,391,808</u>

NET POSITION

Net Investment in Capital Assets	199,100,127
Unrestricted	1,180,354
Total Net Position	<u>\$ 200,280,481</u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2017

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 3,505,237
Local Road Maintenance	8,068,553
Non-Road Projects	513,540
Net Equipment Expense	(331,410)
Net Administrative Expense	871,413
Infrastructure Depreciation	7,595,098
Compensated Absences	(14,117)
Net Pension Expense	296,717
Interest Expense	192,886
	<hr/>
Total Program Expenses	20,697,917
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	57,553
Charges for Services	21,117
Refunds and Reimbursements	9,207
Operating Grants and Contributions	
Michigan Transportation Funds	12,555,640
Investment Earnings	32,934
Contributions From Local Units	1,724,425
Private Contributions	163,540
Capital Grants and Contributions	
Federal Grants	3,711,972
State Grants	1,192,001
Contributions From Local Units	5,894,287
	<hr/>
Total Program Revenue	25,362,676
	<hr/>
Net Program Revenue	4,664,759
	<hr/>
General Revenue	
Taxes	3,401,283
Gain (Loss) on Equipment Disposal	15,563
	<hr/>
Total General Revenues	3,416,846
	<hr/>
Change in Net Position	8,081,605
	<hr/>
Net Position	
Beginning of Year	192,198,876
	<hr/>
End of Year	\$ 200,280,481
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.



ALLEGAN COUNTY ROAD COMMISSION  
 BALANCE SHEET--GOVERNMENTAL FUND  
 December 31, 2017

EXHIBIT C

	General Operating Fund
<u>ASSETS</u>	
Cash	\$ 4,119,314
Investments	590,005
Accounts Receivable	
Taxes Receivable	3,200,036
Sundry Accounts	274,672
Interest	111
Michigan Transportation Funds	1,949,839
State--Other	7,878
Due From Townships Road Agreements	2,129,755
Inventories	
Road Materials	602,906
Equipment Parts and Materials	630,627
Prepaid Expense	115,872
Total Assets	<u>\$ 13,621,015</u>
<u>LIABILITIES</u>	
Liabilities	
Accounts Payable	\$ 361,284
Due to State of Michigan	211,666
Accrued Liabilities	150,750
Performance Bonds Payable	17,480
Total Liabilities	<u>741,180</u>
<u>DEFERRED INFLOW OF RESOURCES</u>	
Unavailable Revenue--Property Taxes	<u>3,391,808</u>
Total Deferred Inflow of Resources	<u>3,391,808</u>
<u>FUND BALANCE</u>	
Fund Balance	
Non-spendable	1,349,405
Restricted	8,138,622
Total Fund Balance	<u>9,488,027</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balance	<u>\$ 13,621,015</u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION  
 RECONCILIATION OF THE GOVERNMENTAL FUND  
 BALANCE SHEET TO THE STATEMENT OF NET POSITION  
 December 31, 2017

EXHIBIT D

Total Governmental Fund Balance \$ 9,488,027

Amounts reported for governmental activities in the Statement of Net Position  
 are different because:

Capital assets used in governmental activities are not financial resources  
 and, therefore, are not reported in the funds. 205,283,337

Long-term liabilities are not due and payable in the current period and  
 are not reported in the funds. (6,183,210)

Employee compensated absences are payable over a long period of years and do not  
 represent a claim on current financial resources; therefore, they are not reported as  
 financial resources; therefore, they are not reported as fund liabilities. (376,611)

Net pension liability is not due and payable in the current period and is not reported  
 in the funds. (10,185,665)

Certain pension contributions and changes in pension plan net position are reported  
 as deferred outflows of resources in the Statement of Net Position, but are reported  
 as expenses in the governmental funds. 2,254,603

Net Position of Governmental Activities \$ 200,280,481

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE--  
GOVERNMENTAL FUND  
For the Year Ended December 31, 2017

EXHIBIT E

	General Operating Fund
Revenues	
Taxes	\$ 3,401,283
Licenses and Permits	57,553
Federal Grants	3,711,972
State Grants	13,747,641
Contributions From Local Units	7,618,712
Charges for Services	21,117
Interest and Rents	32,935
Other Revenue	172,747
	<hr/>
Total Revenues	28,763,960
	<hr/>
Expenditures	
Public Works	26,423,928
Capital Outlay--Net	(316,277)
Debt Service	397,781
	<hr/>
Total Expenditures	26,505,432
	<hr/>
Excess of Revenues Over (Under) Expenditures	2,258,528
	<hr/>
Other Financing Sources	
Gain (Loss) on Equipment Disposal	15,563
	<hr/>
Total Other Financing Sources	15,563
	<hr/>
Net Change in Fund Balance	2,274,091
	<hr/>
Fund Balance--January 1, 2017	7,213,936
	<hr/>
Fund Balance--December 31, 2017	\$ 9,488,027
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION  
 RECONCILIATION OF THE GOVERNMENTAL FUND--  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended December 31, 2017

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 2,274,091

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

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.

Add--Capital Outlay	14,787,433
Deduct--Depreciation Expense	(8,891,380)
Deduct--Equipment Retirements	(10,834)

Repayment of bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Position.	204,895
--	---------

(Increase)/Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the Statement of Activities do not require the use of current resources, and therefore, are not reported in the fund financial statements until they come due for payment.	14,117
--	--------

Increase in pension liability reported in the Statement of Activities does not require the use of resources, and therefore, is not reported in the fund statements until it comes due for payment.	<u>(296,717)</u>
--	------------------

Change in Net Position of Governmental Activities	<u>\$ 8,081,605</u>
---	---------------------

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF NET POSITION--  
FIDUCIARY FUND  
December 31, 2017

EXHIBIT G

	<u>Healthcare Savings Program</u>
<u>ASSETS</u>	
Investments at Fair Market Value	
MERS Total Market Funds	<u>\$ 524,983</u>
Total Assets	<u>524,983</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET POSITION</u>	
Held in Trust for Retiree Healthcare Benefits	<u>\$ 524,983</u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF CHANGES IN NET POSITION--  
FIDUCIARY FUND  
For the Year Ended December 31, 2017

EXHIBIT H

	<u>Healthcare Savings Program</u>
Additions	
Contributions	
Employer	\$ 1,954
Employee	<u>52,546</u>
Total Contributions	<u>54,500</u>
Investment Income	
Net Change in Fair Value of Investments	<u>58,587</u>
Net Investment Income (Loss)	<u>58,587</u>
Total Additions	<u>113,087</u>
Benefits Paid	25,957
Administrative Expenses	<u>1,879</u>
Total Deductions	<u>27,836</u>
Change in Net Position	<u>85,251</u>
Net Position Restricted for Retiree Healthcare Benefits	
Beginning of Year	<u>439,732</u>
End of Year	<u>\$ 524,983</u>

The Notes to the Financial Statements are an integral part of this statement.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Allegan County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Road Commission:

#### Reporting Entity

The Road Commission, which was established pursuant to the County Road Law, Michigan Compiled Law (MCL) 224.1, is governed by an appointed 5-member Board of County Road Commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to County Board of Commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Road Commission, a discretely presented component unit of Allegan County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for roads and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission 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 non-fiduciary activities of the Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Position presents the Road Commission's assets, deferred outflows, liabilities, and deferred inflows of resources with the difference being reported as either net investment in capital assets or restricted net position. The net position not related to capital assets is classified as restricted due to legal constraints.

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. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the General Operating Fund (governmental fund). The General Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

The Road Commission also reports the following fund:

Healthcare Savings Program – The Healthcare Savings Program Trust (the “Trust”) is used to account for assets held by the Municipal Employees Retirement System (MERS) in a trustee capacity that will be used to fund future payment of medical benefits for eligible retirees and their spouses, if applicable. The Trust is a single-employer retiree healthcare trust. All assets placed in the Trust Fund are administered by MERS, which acts as investment fiduciary and trustee. The Road Commission’s Business Manager has the responsibility to direct payment of fund monies for the benefit of eligible employees under the Road Commission’s retiree healthcare benefit program.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds, State/Federal contracts, and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

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 needed.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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.



# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

#### Property Taxes Receivable

The property tax is levied on each December 1 on the taxable valuation of property located in the county as of the preceding December 31. The 2017 taxable valuation of Allegan County amounted to \$4,389,546,659 less \$996,686,204 for cities and villages on which ad valorem taxes of .9916 mill was levied for the Road Commission for road construction purposes for a total of \$3,364,630. The taxes receivable at December 31, 2017, amounted to \$3,200,036 due to the County transmitting \$191,773 of the taxes levied prior to fiscal year end.

The county's 2017 ad valorem tax is levied and collectible on December 1, 2017, and is reported as taxes receivable and is offset by unavailable revenue at December 31, 2017.

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

#### Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

#### Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the General Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation account for non-infrastructure related assets. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund for the non-infrastructure related assets; the infrastructure asset depreciation is reported as a separate line-item in the Statement of Activities.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Road Commission's tax is levied and collectible on December 1, 2016, and is recognized as revenue in the year ended December 31, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

Deferred Outflows/Inflows of Resources

Deferred Outflows

In addition to assets, the Statement of Net Position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. In this category, deferred outflows of resources are related to the defined benefit pension plan. The deferred outflows of resources result from contributions to the defined pension plan subsequent to the plan's year end through the Road Commission fiscal year end, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, changes in experiences, and assumptions changes.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflow of Resources

The deferred inflows of resources are reported in the government-wide Exhibit A and governmental fund financial statement Exhibit C for property taxes levied in the amount of \$3,391,808 during the year that are intended to finance future periods and is unavailable.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Non-spendable Fund Balances

Non-spendable fund balances include amounts in governmental funds to designate amounts which are not available for spending, or are legally or contractually required to be maintained. The non-spendable amount reported on Exhibit C is related to the inventory on hand in the amount of \$1,233,533 and prepaid expenses in the amount of \$115,872.

Restricted Fund Balances

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The remaining Road Commission Funds are restricted as they can only be used in accordance with Public Act 51 of 1951.

The Road Commission does not have a formal minimum balance policy.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Information

Budgetary procedures are established pursuant to 1968 PA 2, MCL 141.421, which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board does not conduct a public budget hearing; the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the Board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

### NOTE C--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the Road Commission are made in banks in the name of the Allegan County Treasurer. MCL 129.91, as amended by 1997 PA 196, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Retiree Healthcare Trust (the "Trust") is authorized by 1965 PA 314, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The Act places percentage limitations on certain investments. The Trust's deposits and investment policies are in accordance with statutory authority. The Trust's assets are invested in the MERS Total Market Fund administered by the Municipal Employees' Retirement System (MERS) of Michigan. The Trust's assets are pooled as a sub-fund within all pooled Healthcare Savings Program (HCSP) Trust Funds with MERS, which is consistent with the statutory authority described above.

The Road Commission has designated three (3) financial institutions for the deposit of Road Commission funds. The investment policy adopted by the Board in accordance with 1943 PA 20, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposit and investment policy are in accordance with statutory authority.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE C--CASH AND INVESTMENTS (Continued)

At year end, the Road Commission’s deposits and investments were reported in the basic financial statements in the following categories:

	Operating Fund	Trust Fund	Total
Cash	\$ 4,119,314	\$ -	\$ 4,119,314
Investments	590,005	524,983	1,114,988
	\$ 4,709,319	\$ 524,983	\$ 5,234,302

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The bank balance of the road commission’s deposits is \$4,377,476 of which \$500,000 is covered by Federal depository insurance. The remaining \$3,877,476 is uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The Road Commission also maintains \$100 in imprest cash.

Investments Authorized by the Road Commission’s Investment Policy

The Road Commission’s investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited its investments to government operating money markets and government securities purchased in the name of the Road Commission.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Information about the sensitivity of the fair values of the Road Commission’s investments (including investments held by a bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Road Commission’s investments by maturity:

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE C--CASH AND INVESTMENTS (Continued)

<u>Investment Type</u>	Remaining Maturity (in Months)		
	12 Months or Less	13 to 24 Months	25 to 60 Months
Fifth Third Securities			
Money Market Fund	\$ 590,005	\$ 590,005	\$ -
Total	\$ 590,005	\$ 590,005	\$ -

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission's investment in a single issuer.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by Michigan law, the Road Commission's investment policy, or debt agreements, and the actual rating as of year-end for each investment type:

<u>Investment Type</u>	Fair Value	Rating Moody's/S&P
Fifth Third Securities		
Money Market Fund	\$ 590,005	AAA
Total	\$ 590,005	

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### NOTE C--CASH AND INVESTMENTS (Continued)

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to the Road Commission's indirect investment in securities through the use of mutual funds or government investment pools.

#### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

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

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE C--CASH AND INVESTMENTS (Continued)

The Road Commission had the following fair value measurements as of December 31, 2017:

	Fair Value Measurements			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fifth Third Securities	\$ 590,005	\$ -	\$ -	\$ 590,005
Total Investments as Fair Value	<u>\$ 590,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 590,005</u>

Investments in Entities that Calculate Net Asset Value per Share

The Road Commission holds \$524,983 in shares or interests in the MERS total market fund where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient. MERS invests assets in a manner which will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.



ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE D--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances			Account Balances
	12/31/2016	Additions	Deductions	12/31/2017
<b>Capital Assets Not Being Depreciated</b>				
Land and Improvements	\$ 139,787	\$ -	\$ -	\$ 139,787
Land/Right-of-Way	2,065,942	21,418	-	2,087,360
Infrastructure Land Improvements	91,183,508	2,375,515	-	93,559,023
<b>Subtotal</b>	<b>93,389,237</b>	<b>2,396,933</b>	<b>-</b>	<b>95,786,170</b>
<b>Capital Assets Being Depreciated</b>				
Buildings	9,789,869	17,739	-	9,807,608
Road Equipment	13,371,534	939,306	149,983	14,160,857
Shop Equipment	124,368	-	-	124,368
Office Equipment	67,008	-	-	67,008
Engineer's Equipment	38,004	33,793	24,613	47,184
Yard and Storage	1,065,073	-	12,544	1,052,529
Infrastructure--Traffic Signals	63,924	-	-	63,924
Infrastructure--Bridges	23,147,361	2,324,407	-	25,471,768
Infrastructure--Roads	137,193,096	9,075,255	3,708,722	142,559,629
<b>Total</b>	<b>184,860,237</b>	<b>12,390,500</b>	<b>3,895,862</b>	<b>193,354,875</b>
<b>Less Accumulated Depreciation</b>				
Buildings	882,562	267,364	-	1,149,926
Road Equipment	11,116,455	958,896	149,983	11,925,368
Shop Equipment	47,495	25,114	-	72,609
Office Equipment	15,100	13,605	-	28,705
Engineer's Equipment	15,065	9,006	14,020	10,051
Yard and Storage	407,541	22,297	12,304	417,534
Infrastructure--Traffic Signals	36,642	4,262	-	40,904
Infrastructure--Bridges	5,924,852	1,320,983	-	7,245,835
Infrastructure--Roads	60,405,645	6,269,852	3,708,721	62,966,776
<b>Total</b>	<b>78,851,357</b>	<b>8,891,379</b>	<b>3,885,028</b>	<b>83,857,708</b>
<b>Net Capital Assets Being Depreciated</b>	<b>106,008,880</b>	<b>3,499,121</b>	<b>10,834</b>	<b>109,497,167</b>
<b>Total Net Capital Assets</b>	<b>\$ 199,398,117</b>	<b>\$ 5,896,054</b>	<b>\$ 10,834</b>	<b>\$ 205,283,337</b>

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense		
Direct Equipment	\$	958,896
Indirect Equipment		314,775
Net Administrative Expense		
Office Equipment		13,605
Engineering		9,006
Infrastructure Depreciation Expense		<u>7,595,097</u>
Total Depreciation Expense	\$	<u>8,891,379</u>

NOTE E--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balances <u>1/1/2017</u>	<u>Additions</u>	<u>(Reductions)</u>	Balances <u>12/31/2017</u>	Due Within <u>One Year</u>
Michigan Transportation Fund Bonds, Series 2014, maturing serially through 2034 with biennial payments ranging from \$200,000 to \$500,000 at an interest rate ranging from 2.00% to 3.75%	\$6,300,000	\$ -	\$ (200,000)	\$6,100,000	\$ 250,000
Michigan Transportation Fund Bonds, Series 2014, bond premium amortized over the life of the bond (20 years)	88,105	-	(4,895)	83,210	4,895
Vested Employee Benefits Vacation and Sick Leave	<u>390,728</u>	<u>-</u>	<u>(14,117)</u>	<u>376,611</u>	<u>221,085</u>
Total	<u>\$6,778,833</u>	<u>\$ -</u>	<u>\$ (219,012)</u>	<u>\$6,559,821</u>	<u>\$ 475,980</u>

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE E--LONG-TERM DEBT (Continued)

On December 4, 2014, the County of Allegan, on behalf of the Allegan County Road Commission, issued Michigan Transportation Fund Bonds, Series 2014, in the amount of \$6,500,000 for the purpose of constructing, furnishing, and equipping new garage and office facilities for the Road Commission. In addition to the bond proceeds received, \$97,895 in bond premiums was received. The premium will be amortized over the 20 year life of the bond. The annual interest and principal requirements of the bond is summarized as follows.

<u>Year</u>	Principal	Interest		Annual
	<u>1-May</u>	<u>1-May</u>	<u>1-Nov</u>	<u>Total</u>
2018	\$ 250,000	\$ 97,391	\$ 93,641	\$ 441,032
2019	250,000	93,641	89,891	433,532
2020	250,000	89,891	86,141	426,032
2021	300,000	86,141	81,641	467,782
2022	300,000	81,641	77,141	458,782
2023-2027	1,725,000	334,892	307,673	2,367,565
2028-2032	2,075,000	187,046	154,094	2,416,140
2033-2034	950,000	26,354	9,375	985,729
Total	<u>\$ 6,100,000</u>	<u>\$ 996,997</u>	<u>\$ 899,597</u>	<u>\$ 7,996,594</u>

Vested Employee Benefits

Employees with 6 months of seniority are granted leave time of 16 hours per month. Office employees get an additional 16 hours of leave pay on January 1 of each year. Employees of Local Union No. 517M, with 6 months or more of seniority, shall be granted 5 hours of leave pay on January 1 of each year. This leave time may be used to cover absences because of illness or vacation. Such leave may be accumulated to a maximum of 768 hours.

On the first payday of June each year, employees are paid an amount equal to all leave accrued in excess of 576 hours as shown in the records on December 31 of the preceding year. Accumulated leave time is payable in full upon resignation or retirement. Office employees leave time is payable in full upon resignation, termination or retirement. As of December 31, 2017, the balance of the vested employee benefits is \$376,611.

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

#### NOTE F--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans were held in trust (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Allegan County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements. The Road Commission contributes \$120 per year to each non-union employee. For the fiscal year 2017, 11 employees qualified for the benefit and \$2,640 was paid by the Road Commission.

#### NOTE G--EMPLOYEES' RETIREMENT SYSTEM

##### General Information about the Pension Plan

*Plan Description.* The Road Commission participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under 1945 PA 135 and administered by a nine member Retirement Board. MERS is a nonprofit organization that was granted independence from the State of Michigan pursuant to 1996 PA 220, effective August 15, 1996. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS Web site at <http://www.mersofmich.com> or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Summary of Significant Accounting Policies

*Pensions.* For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. 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.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

*Benefits Provided--Defined Benefit.* The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. 1984 PA 427, established and amends the benefit provisions of the participants in MERS. Benefit terms, within the guidelines established by MERS, are established and amended by the Road Commission Board, usually after negotiation of terms with applicable unions. Any changes to the plan, including cost of living adjustments, would have to be approved by the Road Commission Board in this manner also.

Benefits Provided by Division

<u>Division 1 - General: Closed to new hires, linked to Division 13</u>	<u>2016 Valuation</u>
Benefit Multiplier	2.25% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25
	55/15
Final Average Compensation	3 Years
Employee Contributions	4.70%
Act 88	Yes (Adopted 2/15/1971)
<u>Division 10 - Salaried: Closed to new hires, linked to Division 13</u>	<u>2016 Valuation</u>
Benefit Multiplier	2.25% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25
	55/15
Final Average Compensation	3 Years
Employee Contributions	4.70%
Act 88	Yes (Adopted 2/15/1971)
<u>Division 11 - Non-Union: Closed to new hires, linked to Division 13</u>	<u>2016 Valuation</u>
Benefit Multiplier	2.25% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25
	55/15
Final Average Compensation	3 Years
Employee Contributions	4.70%
Act 88	Yes (Adopted 2/15/1971)

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Division 12 - Emp. Post 12/31/2012: Closed to New Hires, Linked to Division 13	2016 Valuation
Benefit Multiplier	2.25% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25
	55/15
Final Average Compensation	3 Years
Employee Contributions	6%
Act 88	Yes (Adopted 2/15/1971)

Division 13 - All Employees After 2/1/16: Open Division, Linked to Division 1, 10, 11, 12	2016 Valuation
Benefit Multiplier	2.25% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25
	55/15
Final Average Compensation	3 Years
Employee Contributions	6%
Act 88	Yes (Adopted 2/15/1971)

*Employees covered by benefit terms.* At the December 31, 2016, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	74
Inactive employees entitled to but not yet receiving benefits	5
Active employees	49
Total employees covered by MERS Plan	128

*Contributions.* Const 1963, art 9, § 24 requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance unfunded accrued liability. The Road Commission has also established contribution rates to be paid by its covered employees. As of December 31, 2017, the contribution rates are as follows.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Division	Employee Contribution Rate	Employer Contribution Rate*
All Employees After 2/1/2016	4%	3.77%
All Employees Hired Post 12/31/2012	6%	5.41%
General	4.7%	\$ 421,260
Salaried	4.7%	\$ 126,432
Non-Union	4.7%	\$ 53,724

\*Employer contributions are based on percentages for open divisions and annual payments for closed divisions.

Net Pension Liability

The net pension liability reported as of December 31, 2017, was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016, total pension liability was determined by an actuarial valuation performed as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.75% in the long-term
Investment Rate of Return	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with the price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2016, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

*Discount Rate.* The discount rate used to measure the total pension liability is 8% for 2016. The projection of cash flows used to determine the discount rate assumes that the employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2015	\$ 22,790,556	\$ 12,434,014	\$ 10,356,542
Changes for the Year:			
Service Cost	253,281	-	253,281
Interest	1,764,333	-	1,764,333
Difference Between Expected and Actual Experience	159,128	-	159,128
Contributions - Employer	-	877,534	(877,534)
Contributions - Employee	-	121,938	(121,938)
Net Investment Income	-	1,371,952	(1,371,952)
Benefit Payments, Including Refunds	(1,726,058)	(1,726,058)	-
Administrative Expenses	-	(27,122)	27,122
Other Changes	(3,317)	-	(3,317)
Net Changes	447,367	618,244	(170,877)
Balance at December 31, 2016	\$ 23,237,923	\$ 13,052,258	\$ 10,185,665

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1.00% lower (7%) or 1.00% higher (9%) than the current rate.

	<u>1.00% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1.00% Increase (9%)</u>
Net Pension Liability of the Road Commission	\$ 12,439,635	\$ 10,185,665	\$ 8,250,957

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ending December 31, 2017, the Road Commission recognized pension expense of \$296,717. At December 31, 2016, the Road Commission reported deferred outflow of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$ 533,350	\$ -
Differences in Experience	129,688	-
Differences in Assumptions	317,829	-
Contributions subsequent to the measurement date*	1,273,736	-
Total	\$ 2,254,603	\$ -

\*The amount reported as deferred outflow of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the fiscal year ending December 31, 2017.

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31	Amount
2018	\$ 615,544
2019	274,112
2020	172,689
2021	(81,478)

NOTE H--OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description

In addition to the pension benefits described in Note G, the Road Commission administered a single-employer defined benefit healthcare plan. The Road Commission provides postemployment healthcare benefits through the Road Commission group health insurance plan in accordance with the respective bargaining agreements and personnel policy.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### NOTE H--OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

#### Funding Policy

The Road Commission provides healthcare insurance coverage, or payments towards such coverage, for a period of five years, for all members who retire and received benefits from MERS. The level of benefits, or payments towards coverage, will be the same as in effect for active employees. The Road Commission will provide benefits only to the employee and the Road Commission's obligation do not include the coverage of a retired employee's spouse or dependents. The Road Commission shall provide no benefits to any employee after reaching the age of 65. The retired employee shall be responsible for his/her healthcare insurance premium after five years from the date of retirement or at age 65, whichever comes sooner.

All employees who retire and who elect not to take the paid health insurance benefit from the Road Commission, will receive a lump sum payment of \$250 per month for all eligible time as an opt-out of taking the insurance. The amount will be placed into a health insurance plan.

Currently, nine (9) retirees meet those eligibility requirements. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. During the year, expenditures of \$53,446 were recognized for postemployment healthcare by the Road Commission. This consists of retiree healthcare insurance premiums.

#### Annual OPEB Cost and Net OPEB Obligation

The Road Commission's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

#### Funding Status and Funding Progress

For the year ended December 31, 2017, the Road Commission has estimated the cost of providing retiree healthcare benefits using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The alternative measurement method computes an annual required contribution. The computed required contribution and actual funding are summarized as follows:

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE H--OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Annual Required Contribution	\$53,446
Annual OPEB Cost	53,446
Amounts Contributed	
Payments of Current Premiums	(53,446)
Increase in Net OPEB Obligation	-
Net OPEB Obligation--Beginning of Year	-
Net OPEB Obligation--End of Year	\$ -

The above schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43.

The annual OPEB cost, the percentage contributed to the plan and the net OPEB obligation for the year ended December 31, 2017, compared to the prior year, were as follows:

	2015	2016	2017
Annual OPEB Costs	\$ 47,338	\$ 65,070	\$ 53,446
Percentage Contributed	100.00%	100.00%	100.00%
Net OPEB Asset (Obligation)	\$ -	\$ -	\$ -

Actuarial valuations of an ongoing plan involve 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 trends.

Actuarially determined amounts 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 presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Road Commission expects to prepare an alternative measurement method actuarial valuation every year.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

NOTE H--OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the sharing of benefit costs between the employer and plan members to that point. The actuarial 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 actuarial assumptions were used in the development of the Road Commission's retiree health cost projections using the alternative measurement method.

1. Actuarial Cost Method: Alternate Method as provided under GASB Statement No. 45 for plans with fewer than 100 employees
2. Interest Discount Rate: 5.50% compounded annually

The schedule of funding progress immediately following the notes to the financial statements presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The current year funded status of the plan as of the most recent alternative measurement method date December 31, 2017, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2017	\$ -	\$ 1,192,172	\$ 1,192,172	0%	\$ 2,217,431	53.76%

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

#### NOTE H--OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

##### Healthcare Savings Program

In addition to the defined benefit healthcare plan described above, the Road Commission administers a healthcare savings plan reported as the Health Care Savings Plan (HCSP) (Fiduciary Trust Fund) on Exhibits G and H. The Road Commission provides a HCSP for three employee groups. The HCSP complements the Road Commission's defined benefit healthcare plan. The HCSP is an employer-sponsored savings account administered by the MERS designed to set aside money to cover the escalating costs of postemployment healthcare. Under the program, contributions are made by active employees and by the Road Commission. Once employees leave employment with the Road Commission, regardless of the reason or age at the time of leave, reimbursement may be made, tax exempt, for healthcare related expenses. The Road Commission matches employee's contributions up to \$10 per month.

As of December 31, 2017, the Health Care Savings Plan has 53 active participants and 21 terminated participants. For the year ended December 31, 2017, the employees contributed \$52,546 and the Road Commission contributed \$1,954.

#### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance from Inland Marine for physical damage (building and contents) and medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (Pool) for claims relating to general liability, excess liability, auto liability, errors and omissions, and physical damage (equipment). The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

The county road commissions in the State of Michigan established a trust fund, known as the Pool pursuant to the provisions of 1982 PA 138. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Road Commission became a member in the Pool in April 1984 and became a member of CRCSIF in 1981.

The Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2017, the Federal grants received and expended by the Road Commission was \$3,711,972 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission which are subject to single audit requirements, if the amount expended is \$750,000 or more. A single audit was not performed during the fiscal year ended December 31, 2017.

### NOTE K--UPCOMING REPORTING CHANGE

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Road Commission will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Road Commission is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

ALLEGAN COUNTY ROAD COMMISSION  
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S  
NET PENSION LIABILITY AND RELATED RATIOS\*  
For the Year Ended December 31, 2017

SCHEDULE 1

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ 253,281	\$ 240,776	\$ 259,860
Interest	1,764,333	1,710,298	1,678,704
Difference Between Expected and Actual Experience	159,128	70,811	-
Changes in Assumptions	-	953,487	-
Benefit Payments Including Employee Refunds	(1,726,058)	(1,590,655)	(1,501,450)
Other Changes	(3,317)	-	-
Net Change in Total Pension Liability	<u>447,367</u>	<u>1,384,717</u>	<u>437,114</u>
Total Pension Liability Beginning Balance	<u>22,790,556</u>	<u>21,405,839</u>	<u>20,968,725</u>
Total Pension Liability Ending Balance	<u><u>\$ 23,237,923</u></u>	<u><u>\$ 22,790,556</u></u>	<u><u>\$ 21,405,839</u></u>
Plan Fiduciary Net Position			
Contributions-Employer	\$ 877,534	\$ 645,661	\$ 498,149
Contributions-Employee	121,938	119,593	117,653
Net Investment Income	1,371,952	(193,796)	838,943
Benefit Payments Including Employee Refunds	(1,726,058)	(1,590,655)	(1,501,450)
Administrative Expense	(27,122)	(28,732)	(30,628)
Net Change in Plan Fiduciary Net Position	<u>618,244</u>	<u>(1,047,929)</u>	<u>(77,333)</u>
Plan Fiduciary Net Position Beginning Balance	<u>12,434,014</u>	<u>13,481,943</u>	<u>13,559,276</u>
Plan Fiduciary Net Position Ending Balance	<u><u>\$ 13,052,258</u></u>	<u><u>\$ 12,434,014</u></u>	<u><u>\$ 13,481,943</u></u>
Employer Net Pension Liability	<u><u>\$ 10,185,665</u></u>	<u><u>\$ 10,356,542</u></u>	<u><u>\$ 7,923,896</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56%	55%	63%
Covered Employee Payroll	\$ 2,413,337	\$ 2,273,078	\$ 2,461,564
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	422%	456%	322%

Notes to schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2016 valuation.

Above dates are based on measurement date, which may not necessarily tie to the fiscal year.

\*10-year schedule as required by GASB Statement No. 68 will be built prospectively upon implementation of the standard.



ALLEGAN COUNTY ROAD COMMISSION  
SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS  
For the Year Ended December 31, 2017

SCHEDULE 2

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial Determined Contributions	\$ 707,736	\$ 565,070	\$ 498,149	\$ 446,578	\$ 378,332	\$ 323,762	\$ 306,808	\$ 275,858	\$ 266,631	\$ 232,312
Contributions in relation to the actuarially determined contribution	1,273,736	645,661	498,149	446,578	378,332	323,762	306,808	275,858	266,631	232,312
Contribution deficiency (excess)	\$ (566,000)	\$ (80,591)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 2,413,337	\$ 2,273,078	\$ 2,461,564	\$ 2,419,145	\$ 2,080,085	\$ 2,162,334	\$ 2,634,198	\$ 2,610,201	\$ 2,919,217	\$ 2,788,902
Contributions as a percentage of covered employee payroll	53%	28%	20%	18%	18%	15%	12%	11%	9%	8%

Notes to Schedule

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which the contributions are required

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary Increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Female/50% Male based on RP-2014 Group Annuity Mortality Table

ALLEGAN COUNTY ROAD COMMISSION  
 SCHEDULE OF FUNDING PROGRESS--  
 OTHER POSTEMPLOYMENT BENEFITS  
 For the Year Ended December 31, 2017

SCHEDULE 3

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/15	\$ -	\$ 1,136,721	\$ 1,136,721	0%	\$ 2,484,911	46%
12/31/16	-	1,370,194	1,370,194	0%	2,638,291	52%
12/31/17	-	1,192,172	1,192,172	0%	2,217,431	54%

ALLEGAN COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND--SCHEDULE OF REVENUES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2017

EXHIBIT I

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 3,168,000	\$ 3,402,000	\$ 3,401,283	\$ (717)
Licenses and Permits				
Permits	62,000	58,000	57,553	(447)
Federal Grants				
Surface Transportation Program	1,500,000	1,295,000	1,294,493	(507)
Critical Bridge	2,845,000	863,000	862,479	(521)
Congestion Mitigation and Air Quality	-	355,000	355,000	-
Highway Safety Improvement Program	1,805,000	600,000	600,000	-
High Risk Rural Roads	-	600,000	600,000	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	6,244,500	7,650,000	7,649,999	(1)
Local Road	3,636,000	4,262,000	4,261,541	(459)
Primary Urban Road	325,000	386,000	385,998	(2)
Local Urban Road	107,500	125,000	124,553	(447)
Snow Removal	117,500	124,000	123,549	(451)
Critical Bridge	-	1,009,000	1,008,510	(490)
Economic Development Funds				
D Funds	170,000	184,000	183,491	(509)
Contributions--Local Units				
Townships	7,500,000	7,552,000	7,550,585	(1,415)
Other Governments	60,000	69,000	68,127	(873)
Charges for Services				
Salvage Sales	10,000	18,000	17,282	(718)
Service Charge	5,000	4,000	3,835	(165)
Interest and Rents				
Interest Earned	65,000	33,000	32,935	(65)
Other Revenue				
Private Contributions	-	164,000	163,540	(460)
Reimbursements	8,000	11,000	9,207	(1,793)
Total Revenue	<u>27,638,500</u>	<u>28,774,000</u>	<u>28,763,960</u>	<u>(10,040)</u>
Other Financing Sources				
Gain on Equipment Disposal	<u>50,000</u>	<u>16,000</u>	<u>15,563</u>	<u>(437)</u>
Total Other Financing Sources	<u>50,000</u>	<u>16,000</u>	<u>15,563</u>	<u>(437)</u>
Total Revenues and Other Financing Sources	<u>27,688,500</u>	<u>28,790,000</u>	<u>\$ 28,779,523</u>	<u>\$ (10,477)</u>
Fund Balance--January 1, 2017	<u>7,213,937</u>	<u>7,213,937</u>		
Total Budget	<u>\$ 34,902,437</u>	<u>\$ 36,003,937</u>		

ALLEGAN COUNTY ROAD COMMISSION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 GENERAL OPERATING FUND  
 SCHEDULE OF EXPENDITURES  
 BUDGETARY COMPARISON SCHEDULE  
 For the Year Ended December 31, 2017

EXHIBIT J

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Primary Road</b>				
Preservation/Structural Improvements	\$ 6,380,500	\$ 5,680,000	\$ 5,679,668	\$ 332
Routine and Preventive Maintenance	3,260,000	3,504,000	3,502,192	1,808
<b>Local Road</b>				
Preservation/Structural Improvements	6,300,000	5,788,000	5,787,569	431
Routine and Preventive Maintenance	6,890,000	8,043,000	8,041,204	1,796
<b>Primary Road Structure</b>				
Preservation/Structural Improvements	2,072,000	1,117,000	1,116,939	61
Routine and Preventive Maintenance	20,000	4,000	3,045	955
<b>Local Road Structure</b>				
Preservation/Structural Improvements	1,444,000	1,213,000	1,212,419	581
Routine and Preventive Maintenance	15,000	28,000	27,349	651
Non-Road Projects	-	514,000	513,540	460
Equipment Expense--Net	(690,000)	(330,000)		
Direct			\$ 1,773,512	
Indirect			1,360,791	
Operating			400,540	
Less: Equipment Rentals			<u>(3,866,253)</u>	(331,410)
Administrative Expense--Net	822,000	872,000		
Administrative Expense			873,482	
Less: Purchase Discounts			<u>(2,069)</u>	871,413
Capital Outlay--Net	330,000	(315,000)		
Capital Outlay			990,838	
Less: Depreciation Credits			(1,296,281)	
Less: Equipment Retirements			<u>(10,834)</u>	(316,277)
Debt Service				
Principal Expense	200,000	200,000	200,000	-
Interest Expense	<u>198,000</u>	<u>198,000</u>	<u>197,781</u>	<u>219</u>
<b>Total Expenditures</b>	<u>27,241,500</u>	<u>26,516,000</u>	<u>\$ 26,505,432</u>	<u>\$ 10,568</u>
Fund Balance--December 31, 2017	<u>7,660,937</u>	<u>9,487,937</u>		
<b>Total Budget</b>	<u>\$ 34,902,437</u>	<u>\$ 36,003,937</u>		

ALLEGAN COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND--  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended December 31, 2017

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 15,158,286	\$ 13,002,065	\$ 603,609	\$ 28,763,960
Total Expenditures	<u>10,655,433</u>	<u>15,336,459</u>	<u>513,540</u>	<u>26,505,432</u>
Excess of Revenues Over (Under) Expenditures	<u>4,502,853</u>	<u>(2,334,394)</u>	<u>90,069</u>	<u>2,258,528</u>
Other Financing Sources (Uses)				
Gain on Equipment Disposal	15,559	4	-	15,563
Optional Transfers	<u>(3,828,003)</u>	<u>3,828,003</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(3,812,444)</u>	<u>3,828,007</u>	<u>-</u>	<u>15,563</u>
Net Change in Fund Balance	690,409	1,493,613	90,069	2,274,091
Fund Balance--January 1, 2017	<u>3,395,542</u>	<u>2,417,008</u>	<u>1,401,386</u>	<u>7,213,936</u>
Fund Balance--December 31, 2017	<u>\$ 4,085,951</u>	<u>\$ 3,910,621</u>	<u>\$ 1,491,455</u>	<u>\$ 9,488,027</u>

ALLEGAN COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND--ANALYSIS OF REVENUES  
For the Year Ended December 31, 2017

EXHIBIT L

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes	\$ 3,401,283	\$ -	\$ -	\$ 3,401,283
Licenses and Permits				
Permits	-	-	57,553	57,553
Federal Grants				
Surface Transportation Program	1,294,493	-	-	1,294,493
Critical Bridge	-	862,479	-	862,479
Congestion Mitigation and Air Quality	-	-	355,000	355,000
Highway Safety Improvement Program	600,000	-	-	600,000
High Risk Rural Roads	600,000	-	-	600,000
State Grants				
Michigan Transportation Fund				
Engineering	6,422	3,578	-	10,000
Allocation	7,649,999	4,261,541	-	11,911,540
Urban Roads	385,998	124,553	-	510,551
Snow Removal	-	123,549	-	123,549
Critical Bridge	846,795	161,715	-	1,008,510
Economic Development Funds				
D Funds	183,491	-	-	183,491
Contributions--Local Units				
Townships	110,407	7,440,178	-	7,550,585
Other Governmental	56,744	11,383	-	68,127
Charges for Services				
Salvage Sales	-	-	17,282	17,282
Service Charge	-	-	3,835	3,835
Interest and Rents				
Interest Earned	15,488	11,048	6,399	32,935
Other Revenue				
Private Contributions	-	-	163,540	163,540
Reimbursements	7,166	2,041	-	9,207
Total Operating Revenue	<u>15,158,286</u>	<u>13,002,065</u>	<u>603,609</u>	<u>28,763,960</u>
Other Financing Sources				
Gain on Equipment Disposal	<u>15,559</u>	<u>4</u>	<u>-</u>	<u>15,563</u>
Total Other Financing Sources	<u>15,559</u>	<u>4</u>	<u>-</u>	<u>15,563</u>
Total Revenue and Other Financing Sources	<u>\$ 15,173,845</u>	<u>\$ 13,002,069</u>	<u>\$ 603,609</u>	<u>\$ 28,779,523</u>

ALLEGAN COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Year Ended December 31, 2017

EXHIBIT M

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 5,679,668	\$ -	\$ -	\$ 5,679,668
Routine and Preventive Maintenance	3,502,192	-	-	3,502,192
Local Road				
Preservation/Structural Improvements	-	5,787,569	-	5,787,569
Routine and Preventive Maintenance	-	8,041,204	-	8,041,204
Primary Road Structures				
Preservation/Structural Improvements	1,116,939	-	-	1,116,939
Routine and Preventive Maintenance	3,045	-	-	3,045
Local Road Structures				
Preservation/Structural Improvements	-	1,212,419	-	1,212,419
Routine and Preventive Maintenance	-	27,349	-	27,349
Non-Road Projects	-	-	513,540	513,540
Equipment Expense--Net (Per Exhibit J)	(82,124)	(249,286)	-	(331,410)
Administrative Expense--Net (Per Exhibit J)	353,844	517,569	-	871,413
Capital Outlay--Net (Per Exhibit J)	(315,912)	(365)	-	(316,277)
Debt Service				
Principal Expense	200,000	-	-	200,000
Interest Expense	197,781	-	-	197,781
Total Expenditures	<u>\$ 10,655,433</u>	<u>\$ 15,336,459</u>	<u>\$ 513,540</u>	<u>\$ 26,505,432</u>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

June 5, 2018

Board of County Road Commissioners  
Allegan County Road Commission  
1308 Lincoln Road  
Allegan, Michigan 49010

Independent Auditor's Report

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Dear Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Road Commission, Allegan County, Michigan, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Allegan County Road Commission's basic financial statements, and have issued our report thereon dated June 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allegan County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in circumstance 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 Allegan County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Allegan County 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 Allegan County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

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

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

June 5, 2018

Board of County Road Commissioners  
Allegan County Road Commission  
1308 Lincoln Road  
Allegan, Michigan 49010

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Road Commission, Allegan County, Michigan, for the fiscal year ended December 31, 2017, and have issued our report thereon dated June 5, 2018. Professional standards require that we provide you with information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated January 9, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Allegan County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Allegan County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters April 9, 2018, with management.

#### Significant Results of the Audit

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Allegan County Road Commission are described in Note A to the financial statements. No new accounting pronouncements were implemented this year. The notes to the financial statement now include fair value information relating to the Road Commission's investments. We noted no transactions entered into by the Allegan County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the governmental activities in the government-wide statements relates to depreciation, the net pension liability, and the liability related to other postemployment benefits. Management's estimate of the depreciation is based on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. For the pension, estimates and assumptions are determined by MERS and its actuary, based on the Road Commission's negotiations with its bargaining units and resolutions of the Board of County Road Commissioners. For retiree healthcare, the estimates and assumptions are based on actuarial techniques. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

#### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 5, 2018.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Allegan County Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Allegan County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Allegan County Road Commission's Board of County Road Commissioners and management of the Allegan County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Community Engagement and Finance Division