

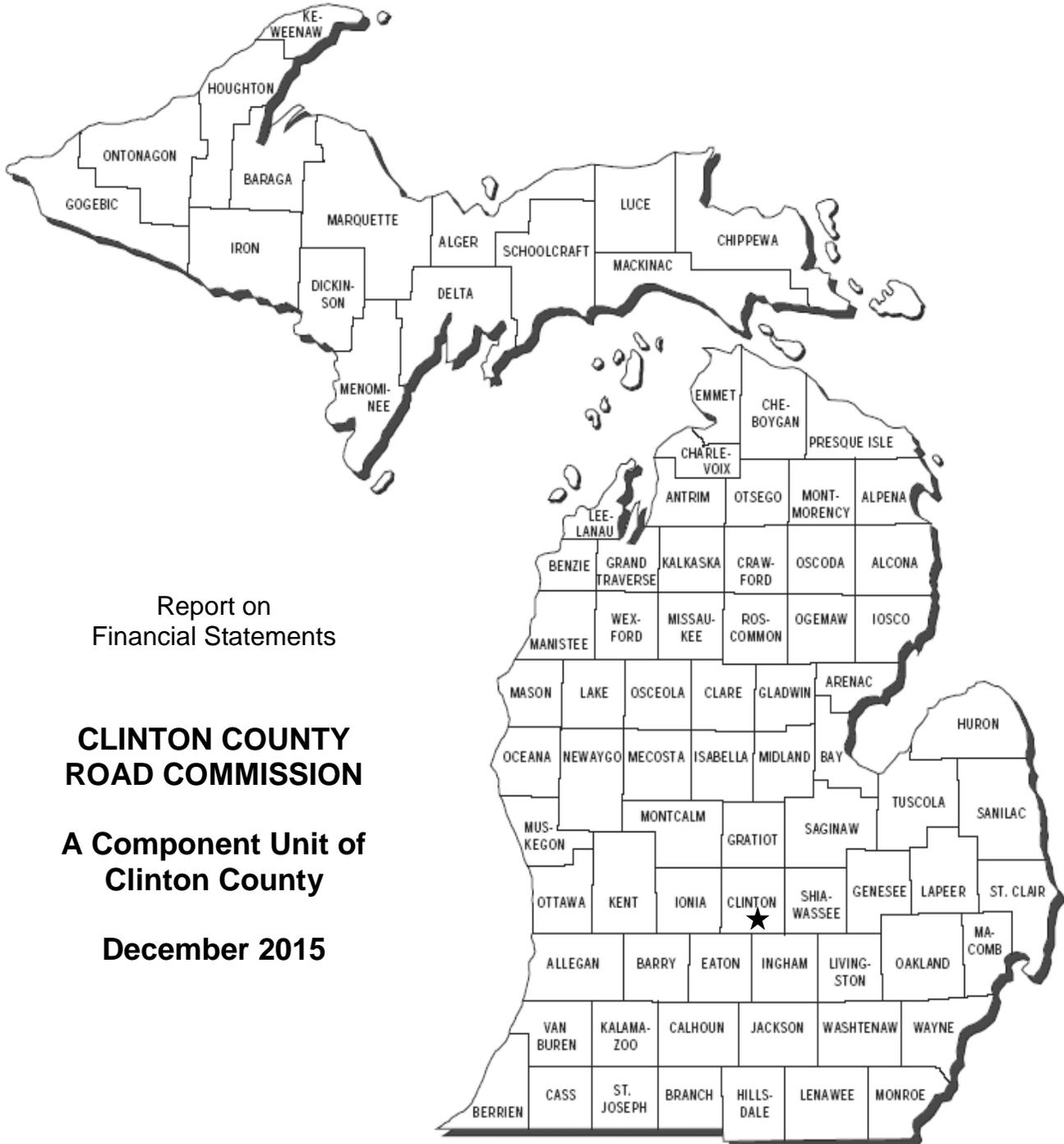
# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

NICK A KHOURI

State Treasurer



Report on  
Financial Statements

### CLINTON COUNTY ROAD COMMISSION

A Component Unit of  
Clinton County

December 2015

CLINTON COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

(April 18, 2016)

Donald J. Sisung  
Chairman

Peter B. Blauwikel  
Vice Chairman

Gail Watkins  
Member

Joseph D. Pulver, P.E.  
Managing Director

Daniel R. Armentrout  
County Highway Engineer

Jill Rey  
Director of Finance/Clerk

COUNTY POPULATION--2010  
75,382

STATE EQUALIZED VALUATION--2015  
\$3,192,116,297



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

April 18, 2016

Board of County Road Commissioners  
Clinton County Road Commission  
3536 South BR 127  
St. Johns, Michigan 48879

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 Clinton County Road Commission, a component unit of Clinton County, Michigan, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Clinton 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 Clinton County Road Commission, Clinton County, Michigan, as of December 31, 2015, 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.

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

As discussed in Note M to the basic financial statements, in 2015, the Road Commission adopted the new accounting guidance of GASB No. 68, *Accounting and Financial Reporting for Pensions*, which establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of governmental employers through pension plans. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through eight, the budgetary comparison information in Exhibits I and J, and pension trend data, and the schedule of funding progress for other post-employment 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 Clinton County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits K through M is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits K through M is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary and related information presented in Exhibits K through M is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2016, on our consideration of the Clinton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clinton County Road Commission's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Local Government Financial Services Division

CLINTON COUNTY ROAD COMMISSION

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CLINTON COUNTY ROAD COMMISSION

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**CLINTON COUNTY ROAD COMMISSION**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended December 31, 2015**

Our discussion and analysis of the Clinton County Road Commission’s financial performance provides an overview of the Road Commission’s financial activities for the fiscal year ending December 31, 2015.

**USING THIS ANNUAL REPORT**

This annual report consists of three parts: Management’s Discussion and Analysis (this section), the basic financial statements, and additional required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities in Exhibits A and B provide information about the activities of the Road Commission as a whole and present a long-term view of the Road Commission’s finances. Fund financial statements start with Exhibit C. For governmental activities, these statements show how services were financed short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission’s operations in greater detail than the government-wide statements by providing information about the Road Commission’s most significant funds.

**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 to answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the method used by 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 out.

These two statements report the Road Commission’s net position and changes to it. 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 is an indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Road Commission’s property tax base and the condition of the 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 its governmental activities. All of the Road Commission’s basic services are reported here. State and federal grants along with township contributions finance most activities.

**CLINTON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended December 31, 2015**

**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. The fund financial statements begin with Exhibit C. All of the Road Commission's basic services are reported in this fund, which focuses on how money flows in and out of the fund, as well as 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 to determine whether there are more or less 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.

***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 and schedules of funding progress for pensions and other postemployment benefits.

***Other Supplementary Information***

The other supplementary information section combines the financial statements of the individual funds of the Road Commission's General Operating Fund, which is split between Primary Road, Local Road, and County Road Commission funds to comply with reporting provisions issued by the Michigan Department of Transportation under Public Act 51 of 1951, as amended.

**The Road Commission as a Whole**

The Road Commission's net position decreased from \$59,817,197 to \$55,327,454 for the year ending December 31, 2015. This is contrary to the previous year when the net position increased \$2,425,643. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Road Commission's governmental activities.

**CLINTON COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2015**

**Table 1  
Net Position of Governmental Activities**

	12/31/14* Governmental Activities	12/31/2015 Governmental Activities	Variance
Current and Other Assets	\$ 5,315,379	\$ 6,532,262	\$ 1,216,883
Net Capital Assets	<u>57,712,111</u>	<u>58,061,656</u>	<u>349,545</u>
Total Assets	<u>63,027,490</u>	<u>64,593,918</u>	<u>1,566,428</u>
Deferred Outflows of Resources	<u>-</u>	<u>884,642</u>	<u>884,642</u>
Current Liabilities	250,816	314,020	63,204
Noncurrent Liabilities	<u>2,959,477</u>	<u>9,837,086</u>	<u>6,877,609</u>
Total Liabilities	<u>3,210,293</u>	<u>10,151,106</u>	<u>6,940,813</u>
Net Position			
Net Investment in Capital Assets	57,712,111	58,061,656	349,545
Restricted	2,105,086	-	(2,105,086)
Unrestricted	<u>-</u>	<u>(2,734,202)</u>	<u>(2,734,202)</u>
Total Net Position	<u>\$ 59,817,197</u>	<u>\$ 55,327,454</u>	<u>\$ (4,489,743)</u>

\*GASB Statement Nos. 68 and 71 were implemented by the Road Commission in the fiscal year 2015. Fiscal year 2014 amounts shown have not been modified to reflect the retroactive application of the change.

The Road Commission's governmental activities total net position decreased by 7.5% or \$4,489,743. The restricted/unrestricted net position are the funds used for the Road Commission's operations within the provisions of Public Act 51 of 1951, as amended. With the implementation of GASB 68 this year, the Road Commission has recorded, for the first time, a net pension liability of \$7,129,613. This newly recorded liability decreased the positive restricted net position of \$2,105,086 to a negative unrestricted net position of (\$2,734,202).

**CLINTON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended December 31, 2015**

**Table 2**  
**Changes in Net Position of Governmental Activities**

	2014	2015	Difference
Program Revenue			
Licenses and Permits	\$ 66,290	\$ 57,050	\$ (9,240)
Charges for Services	971,635	977,139	5,504
Other Contributions	405,023	209,160	(195,863)
State Grants	7,382,866	7,834,218	451,352
Contributions From Local Units	2,513,047	2,351,148	(161,899)
Federal Grants	2,370,510	2,664,723	294,213
Investment Earnings	20,054	6,136	(13,918)
General Revenue			-
Gain (Loss) on Equipment Disposal	73,799	(5,716)	(79,515)
<b>Total Revenue</b>	<b>13,803,224</b>	<b>14,093,858</b>	<b>290,634</b>
Expenses			
Primary Road Maintenance	2,358,273	2,332,511	(25,762)
Local Road Maintenance	3,949,799	4,265,480	315,681
State Trunkline Maintenance	980,697	823,724	(156,973)
Net Equipment Expense	228,279	133,542	(94,737)
Net Administrative Expense	670,604	679,000	8,396
Non-Road Project	127,639	856,227	728,588
Infrastructure Depreciation Expense	3,366,938	3,548,613	181,675
Compensated Absences	37,534	24,192	(13,342)
Other Post-Employment Benefit Expense	(342,182)	(324,659)	17,523
Pension Expense	-	75,607	75,607
<b>Total Expenses</b>	<b>11,377,581</b>	<b>12,414,237</b>	<b>1,036,656</b>
<b>Change in Net Position</b>	<b>2,425,643</b>	<b>1,679,621</b>	<b>(746,022)</b>
<b>Ending Net Position</b>	<b>\$ 59,817,197</b>	<b>\$ 55,327,454</b>	<b>\$ (4,489,743)</b>

***Governmental Activities***

The Road Commission's governmental activities revenues increased by 2.1% or \$290,634, while expenses increased 9.1% or \$1,036,656 compared with the prior fiscal year. The increase in total revenue was primarily the result of an increase in state and Federal grants the Road Commission received.

Total expenses increased \$1,036,656 overall, however, due to a Non-maintenance Trunkline Project performed this year along with increased local road maintenance and infrastructure depreciation.

**CLINTON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended December 31, 2015**

**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 \$5,449,284 which is more than last year's ending fund balance of \$4,574,971. The primary reasons for the General Fund's increase mirror the governmental activities analysis highlighted in the prior paragraph.

**GENERAL 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 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 the spread of distributive and non-distributive expenses incurred by the Road Commission.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

As of December 31, 2015, the Road Commission had \$58,061,656 invested in a broad range of capital assets, including land, buildings, equipment, roads, and bridges. This amount represents a net increase of \$349,545.

**CLINTON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended December 31, 2015**

**Table 3**  
**Capital Assets at Year-End**

	<u>12/31/14</u>	<u>12/31/15</u>
Capital Assets Not Being Depreciated		
Land	\$ 283,750	\$ 283,750
Infrastructure--Land/Right-of-Way	1,335,246	1,345,716
Infrastructure--Land and Improvements	<u>6,319,701</u>	<u>6,357,828</u>
Subtotal	<u>7,938,697</u>	<u>7,987,294</u>
Capital Assets Being Depreciated		
Buildings	1,920,262	1,920,262
Road Equipment	6,803,463	6,503,434
Shop Equipment	164,423	164,423
Office Equipment	163,283	163,598
Engineer's Equipment	24,480	21,633
Yard and Storage	70,155	70,155
Depletable Assets	75,448	75,448
Infrastructure-Bridges	32,031,514	33,546,896
Infrastructure-Roads	54,145,522	55,444,851
Infrastructure-Traffic Signals	<u>1,099,805</u>	<u>1,100,139</u>
Subtotal	<u>96,498,355</u>	<u>99,010,839</u>
Total Capital Assets	104,437,052	106,998,133
Total Accumulated Depreciation	<u>(46,724,941)</u>	<u>(48,936,477)</u>
Total Net Capital Assets	<u>\$ 57,712,111</u>	<u>\$ 58,061,656</u>

# CLINTON COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended December 31, 2015

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

Reconstruction of Bridges (by Location)	\$ 1,515,382
Various Resurfacing Projects and Related Land/Right-of-Way	2,738,573
Infrastructure - Traffic Signals	334
Infrastructure - Land/Right-of-Way	10,470
Infrastructure - Land Improvements	38,127
Road Equipment	67,023
Administrative, Office and Engineering Equipment	<u>4,423</u>
Total Additions	<u>\$ 4,374,332</u>

The Road Commission's 2016 Capital Budget calls for it to continue to spend funds for equipment purchases and road/bridge projects. The Road Commission has no plans to issue additional debt to finance these projects. More detailed information about the Road Commission's capital assets is presented in Note D to the financial statements.

### Debt

The Road Commission has not issued any debt instruments. Vested employee benefits (in the amount of \$629,304) are the only debt the Road Commission has at the end of the fiscal year. More information is presented in Note E to the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission derives approximately 45% of its revenues from the fuel tax and license plate fees collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive approximately \$1,000,000 in additional Michigan Transportation Fund revenue in 2016. The Road Commission derived approximately 47.32% of its revenues from the fuel tax collected in 2015 and approximately 16.9% of its revenues from township contributions during 2015. The amount of township contribution fluctuates annually with the level of township participation in approved road projects. During 2016, we expect to receive \$1,886,900 in federal and state aid for road projects if they are completed during the 2016 construction season. In 2012, the Board of Clinton County Road Commissioners authorized the use of the alternative valuation method for all other post-employment benefits (other than pensions). The actuarial determined that the Road Commission had an Unfunded Accrued Liability (UAL) of \$10,210,136 as of December 31, 2012 for employer financed retiree health care. The Board of Clinton County Road Commissioners has established a trust fund through Municipal Employees Retirement System of Michigan for other post-employment benefits (OPEB) with \$600,000 contributed in 2015 in addition to the monthly retiree health insurance premiums which equaled a total of \$460,797; the Road Commission exceeded the Annual Required Contribution (ARC) of \$785,416. The MERS OPEB Trust Fund had a balance of \$2,371,931 at the end of 2015.

**CLINTON COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2015**

The Road Commission continues its commitment to reduce this liability and has addressed this by eliminating spousal coverage for union employees through the most recent collective bargaining agreement. For all employees who have already retired, the premium will be frozen at the 2016 January premium level and any future increase will be paid by the retiree. The elimination of spousal coverage for administrative employees will be addressed in 2016.

The above items were considered when adopting the budget for 2016. The amount available for appropriation in the 2016 budget is \$13,134,132. The budget is a financial tool that can be amended, as needed, to adjust to actual revenue/expenditures dependent upon Michigan Transportation Fund revenue.

**CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT**

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the commission's finances and to show the commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Clinton County Road Commission Director of Finance at 3536 S. US Highway 27, St. Johns, MI 48879.

**CLINTON COUNTY ROAD COMMISSION**  
**STATEMENT OF NET POSITION**  
**December 31, 2015**

**EXHIBIT A**

**ASSETS**

Cash	\$ 3,576,051
Accounts Receivable	
Sundry Accounts	2,825
State--Trunkline Maintenance	77,035
Michigan Transportation Fund	1,029,103
State--Other	774,061
Due From Townships--Road Agreements	144,516
Inventories	
Road Materials	621,256
Equipment Parts and Materials	307,415
Capital Assets--Nondepreciating	7,987,294
Capital Assets--Net of Accumulated Depreciation	<u>50,074,362</u>
Total Assets	<u>64,593,918</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflow Investments	176,098
Deferred Outflow Employer Contributions	<u>708,544</u>
Total Deferred Outflow of Resources	<u>884,642</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	112,805
Due to State	7,391
Accrued Liabilities	84,282
Performance Bonds Payable	109,542
Noncurrent Liabilities	
Advances From State	252,740
Vested Employee Benefits Payable-Due in One Year	190,373
Vested Employee Benefits Payable-Due in More Than One Year	438,931
Net Other Post-Employment Benefits Obligation	1,825,429
Net Pension Liability	<u>7,129,613</u>
Total Liabilities	<u>10,151,106</u>

**NET POSITION**

Net Investment in Capital Assets	58,061,656
Unrestricted	<u>(2,734,202)</u>
Total Net Position	<u>\$ 55,327,454</u>

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

**CLINTON COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended December 31, 2015**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 2,332,511
Local Road Maintenance	4,265,480
State Trunkline Maintenance	823,724
Net Equipment Expense	133,542
Net Administrative Expense	679,000
Non-Road Projects	856,227
Infrastructure Depreciation	3,548,613
Compensated Absences	24,192
Other Post-Employment Benefit Expense	(324,659)
Pension Expense	75,607
	<hr/>
Total Program Expenses	12,414,237
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	57,050
Charges for Services	977,139
Operating Grants and Contributions	
Federal Grants	468,951
Michigan Transportation Funds	6,560,009
Other State Grants	1,033,357
Investment Earnings	6,136
Capital Grants and Contributions	
Federal Grants	2,195,772
State Grants	240,852
Contributions From Local Units	2,351,148
Public Contributions	40,196
Private Contributions	168,964
	<hr/>
Total Program Revenue	14,099,574
	<hr/>
Net Program Revenue	1,685,337
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General Revenue	
Gain (Loss) on Equipment Disposal	(5,716)
	<hr/>
Total General Revenues	(5,716)
	<hr/>
Change in Net Position	1,679,621
Net Position	
Beginning of Year	59,817,197
	<hr/>
Restatement to Beginning Net Position (Note L)	(6,169,364)
Restated Beginning Net Position	53,647,833
	<hr/>
End of Year	\$ 55,327,454
	<hr/> <hr/>

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

**CLINTON COUNTY ROAD COMMISSION  
BALANCE SHEET--GOVERNMENTAL FUND  
December 31, 2015**

**EXHIBIT C**

	General Operating Fund
<b><u>ASSETS</u></b>	
Cash	\$ 3,576,051
Accounts Receivable	
Sundry Accounts	2,825
State Trunkline Maintenance	77,035
Michigan Transportation Fund	1,029,103
State Department of Transportation--Other	774,061
Due From Townships--Road Agreements	144,516
Inventories	
Road Materials	621,256
Equipment Parts and Materials	307,415
Total Assets	<u>\$ 6,532,262</u>
<b><u>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</u></b>	
Liabilities	
Accounts Payable	\$ 112,805
Due to State	7,391
Accrued Liabilities	84,282
Performance Bonds Payable	109,542
Advances From State	252,740
Total Liabilities	<u>566,760</u>
Deferred Inflow of Resources	
Unavailable Revenue	<u>516,218</u>
Total Deferred Inflow of Resources	<u>516,218</u>
Fund Balance	
Nonspendable--Inventory	928,671
Restricted for County Road Operations	4,520,613
Total Fund Balance	<u>5,449,284</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balance	<u>\$ 6,532,262</u>

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

**CLINTON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE  
SHEET TO THE STATEMENT OF NET POSITION  
December 31, 2015**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 5,449,284
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used for governmental activities are not financial resources and, therefore, are not reported in the funds.	58,061,656
Revenues that do not provide current financial resources are not reported as revenue in the funds.	516,218
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.	(629,304)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities.	(1,825,429)
Net pension liability is not due and payable in the current period and is not reported in the funds.	(7,129,613)
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.	<u>884,642</u>
Net Position of Governmental Activities	<u><u>\$ 55,327,454</u></u>

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

**CLINTON COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE--GOVERNMENTAL FUND  
For the Fiscal Year Ended December 31, 2015**

**EXHIBIT E**

	General Operating Fund
	<u>                    </u>
Revenues	
Licenses and Permits	\$      57,050
Federal Grants	2,664,723
State Grants	7,603,315
Contributions from Local Units	2,351,148
Charges for Services	966,303
Interest and Rents	16,643
Other Revenue	<u>203,444</u>
 Total Revenues	 <u>13,862,626</u>
 Expenditures	
Public Works	13,393,039
Capital Outlay (Net)	<u>(404,726)</u>
 Total Expenditures	 <u>12,988,313</u>
 Excess of Revenues Over (Under) Expenditures	  874,313
 Fund Balance--January 1, 2015	 <u>4,574,971</u>
 Fund Balance--December 31, 2015	 <u><u>\$      5,449,284</u></u>

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

**CLINTON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended December 31, 2015**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 874,313

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	4,374,332
Deduct--Depreciation Expense	(4,019,071)
Deduct--Equipment Retirements	(5,716)

Revenues earned but not available for current resources are not reported in the funds.	230,903
--	---------

(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.	(24,192)
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Other postemployment benefit obligation expense is recognized in the Statement of Activities, but not in the governmental funds	324,659
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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>(75,607)</u>
--	-----------------

Change in Net Position of Governmental Activities	<u>\$ 1,679,621</u>
---	---------------------

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

**CLINTON COUNTY ROAD COMMISSION  
STATEMENT OF NET POSITION  
FIDUCIARY FUND  
December 31, 2015**

**EXHIBIT G**

	Health Care Savings Program	Retiree Health Care Trust	Total
<u>ASSETS</u>			
Investments at Fair Market Value			
MERS Total Market Funds	\$ 14,355	\$ 2,357,576	\$ 2,371,931
Net Change in Fair Value of Investments			
Total Assets	<u>14,355</u>	<u>2,357,576</u>	<u>2,371,931</u>
<u>LIABILITIES</u>			
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>			
Held in Trust for Retiree Health Care Benefits	<u>\$ 14,355</u>	<u>\$ 2,357,576</u>	<u>\$ 2,371,931</u>

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

**CLINTON COUNTY ROAD COMMISSION  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Year Ended December 31, 2015**

**EXHIBIT H**

	Health Care Savings Program	Retiree Health Care Trust	Total
Additions			
Contributions			
Employer	\$ 8,395	\$ 600,000	\$ 608,395
Total Contributions	8,395	600,000	608,395
Investment Income			
Net Change in Fair Value of Investments	(334)	(24,957)	(25,291)
Net Investment Income (Loss)	(334)	(24,957)	(25,291)
Total Additions	8,061	575,043	583,104
Administrative Expenses	288	5,184	5,472
Total Deductions	288	5,184	5,472
Change in Net Position	7,773	569,858	577,631
Net Position Restricted for Retiree Health Care Benefits			
Beginning of Year	6,582	1,787,718	1,794,300
End of Year	\$ 14,355	\$ 2,357,576	\$ 2,371,931

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

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clinton County Road Commission conform to generally accepted accounting principles 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 Clinton County Road Commission.

Reporting Entity

The Clinton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3-member board of county road commissioners appointed by the county board of commissioners. The road commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

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 Clinton County Road Commission, a discretely presented component unit of Clinton 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 street 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 Clinton County 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 and liabilities with the difference being reported as either net investment in capital assets or restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

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:

Retiree Health Care Trust – The Retiree Health Care 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 Director of Finance shall direct payment of fund monies for the benefit of eligible employees under the road commission’s retiree health care 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. 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; and 2) MTF, 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.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

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.

Bank Deposits 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.

Inventories

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and traffic signals) are reported in the General Operating Fund in the government-wide financial statements. Capital assets are defined by the Clinton County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of three years except for Schedule 'C' equipment which has no minimum cost. Assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	25 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years
Infrastructure – Signals	15 years

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

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

Deferred Outflows/Inflows of Resources

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 two transactions: contributions to the defined pension plan subsequent to the plan's year end through the Road Commission fiscal year end; and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

Long-Term Obligations

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

Other Financing Sources (Uses)

In the fund financial statements, the transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

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 these estimations.

Fund Balance Classifications

In accordance with Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Road Commission classifies its fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. For the Road Commission, the non-spendable balance reflects the inventory on hand in the amount of \$928,671.

## CLINTON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended December 31, 2015

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

- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or 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 has not adopted a Fund Balance policy as of December 31, 2015 setting a minimum balance.

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

##### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. The road commission's chief fiscal administrative officer (Director of Finance) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and, subsequently, adopts an operating budget. Amendments to the budget are made only with board approval. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements. The budget adopted complies with all requirements established by Public Act 2 of 1968, as amended.

#### NOTE C--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in six banks in the name of the Clinton County Treasurer. Public Act 20 of 1943, as amended, 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; 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.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE C--CASH AND INVESTMENTS (Continued)

The Retiree Health Care Trust (the "Trust") is authorized by Michigan Public Act 314 of 1965, as amended, 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. On December 31, 2009, the Trust's assets were 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 Health Care Savings Program (HCSP) Trust Funds with MERS, which is consistent with the statutory authority described above.

The Road Commission has designated six banks for the deposit of Road Commission funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

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

	<u>Operating Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Cash	\$ 3,576,051	\$ -	\$ 3,576,051
Investments	-	2,371,931	2,371,931
	<u>\$ 3,576,051</u>	<u>\$ 2,371,931</u>	<u>\$ 5,947,982</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings)	\$ 3,575,951
Investments in MERS Money Market Funds	2,371,931
Petty Cash and Cash on Hand	<u>100</u>
Total	<u>\$ 5,947,982</u>

Non-negotiable certificates of deposit that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because non-negotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required for them, which are limited to investments.

The bank balance of the road commission's deposits is \$3,690,967 of which \$1,463,449 is covered by Federal depository insurance. The remaining \$2,227,518 is uncollateralized.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE C--CASH AND INVESTMENTS (Continued)

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 their investments to money markets and investments related to pension benefits. All investments are held 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 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.

As of December 31, 2015, the Road Commission had the following investments, none of which can be categorized:

	<u>Reported Amount (Fair Value)</u>
Investments	
MERS Money Market Funds	<u>\$ 2,371,931</u>
Total Trust Funds	<u><u>\$ 2,371,931</u></u>

Concentration of 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. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

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.

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.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE C--CASH AND INVESTMENTS (Continued)

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. All of the investments are through the use of mutual funds.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE D--CAPITAL ASSETS

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

	Account Balances 1/1/2015	Additions	Deductions	Account Balances 12/31/2015
Capital Assets Not Being Depreciated				
Land	\$ 283,750	\$ -	\$ -	\$ 283,750
Infrastructure--Land/Right-of-Way	1,335,246	10,470	-	1,345,716
Infrastructure--Land Improvements	6,319,701	38,127	-	6,357,828
Subtotal	<u>7,938,697</u>	<u>48,597</u>	<u>-</u>	<u>7,987,294</u>
Capital Assets Being Depreciated				
Buildings	1,920,262	-	-	1,920,262
Road Equipment	6,803,463	67,023	367,052	6,503,434
Shop Equipment	164,423	-	-	164,423
Office Equipment	163,283	625	310	163,598
Engineers' Equipment	24,480	3,798	6,645	21,633
Yard Equipment	70,155	-	-	70,155
Depletable Assets	75,448	-	-	75,448
Infrastructure--Bridges	32,031,514	1,515,382	-	33,546,896
Infrastructure--Roads	54,145,522	2,738,573	1,439,244	55,444,851
Infrastructure--Traffic Signals	1,099,805	334	-	1,100,139
Total	<u>96,498,355</u>	<u>4,325,735</u>	<u>1,813,251</u>	<u>99,010,839</u>
Less Accumulated Depreciation				
Buildings	1,285,778	56,661	-	1,342,439
Road Equipment	5,739,512	391,929	361,549	5,769,892
Shop Equipment	120,183	9,645	-	129,828
Office Equipment	132,171	5,946	97	138,020
Engineer's Equipment	23,174	282	6,645	16,811
Yard Equipment	38,177	5,995	-	44,172
Depletable Assets	52,806	-	-	52,806
Infrastructure--Bridges	15,376,469	514,239	-	15,890,708
Infrastructure--Roads	23,491,602	2,961,248	1,439,244	25,013,606
Infrastructure--Traffic Signals	465,069	73,126	-	538,195
Total	<u>46,724,941</u>	<u>4,019,071</u>	<u>1,807,535</u>	<u>48,936,477</u>
Net Capital Assets Being Depreciated	<u>49,773,414</u>	<u>306,664</u>	<u>5,716</u>	<u>50,074,362</u>
Total Net Capital Assets	<u>\$ 57,712,111</u>	<u>\$ 355,261</u>	<u>\$ 5,716</u>	<u>\$ 58,061,656</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 391,929
Indirect Equipment	
Buildings	56,600
Shop Equipment	9,645
Yard Equipment	5,995
Net Administrative Expense	
Buildings	61
Engineers Equipment	282
Office Equipment and Furniture	5,946
Infrastructure	<u>3,548,613</u>
Total Depreciation Expense	<u>\$ 4,019,071</u>

NOTE E--LONG-TERM DEBT

The long-term debt of the road commission may be summarized as follows:

Vested Employee Benefits Payable

	<u>Balances</u>			<u>Balances</u>	<u>Due Within</u>
	<u>1/1/2015</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>12/31/2015</u>	<u>One Year</u>
Vested Employee Benefits					
Vacation Benefits	\$ 153,354	\$ 5,411	\$ -	\$ 158,765	\$ 120,877
Sick Leave Benefits	322,816	3,414	-	326,230	66,803
Longevity	128,942	15,367	-	144,309	2,693
Total	<u>\$ 605,112</u>	<u>\$ 24,192</u>	<u>\$ -</u>	<u>\$ 629,304</u>	<u>\$ 190,373</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE E--LONG-TERM DEBT (Continued)

Vacation Benefits

Road commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of an employee and the employee group to which they belong. Benefits earned by each employee are credited annually to his or her account on the anniversary date of employment. The maximum allowable accumulation is 248 hours for administrative salaried employees and 240 hours for union employees. For all employees, up to one-half of their accumulated vacation hours may be converted to cash within 6 months of their anniversary date. All employees are eligible to receive 100% of accumulated vacation time upon retirement, death, or resignation if they leave providing a two week notice.

Sick Leave Benefits

The road commission's employment policies provide that every full-time employee shall earn sick leave at the rate of 2 hours per week, not to exceed 104 hours per year, with a maximum accumulation of 1,000 hours for all employees. Upon retirement or death, employees shall be paid for all unused sick leave. One-half of accumulated sick leave is paid upon resignation of an employee provided they give a 2 week notice. Union employees are allowed to sell up to 80 hours in the first check of December, annually, with a minimum balance requirement of 240 hours after the sale of hours. Administrative salaried employees receive an additional 32 hours of sick leave on January 1, annually, and may sell up to 96 hours in the first check of December, annually, with a minimum balance requirement of 240 hours after the sale of hours.

Longevity Benefits

Administrative salaried employees accumulate longevity of 24 to 48 hours per year, not to exceed 1,440 hours maximum. Payment can be made after a minimum of 5 years of administrative service. Longevity is recorded at 100% of maximum payable, is earned on the employees' administrative anniversary date, and can be sold at any time. Administrative salaried employees hired after January 1, 2007, receive 24 hours of longevity pay, annually, in the first check of December.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE F--DEFERRED COMPENSATION PLAN

The Clinton County Board of Road Commissioners offers all road commission employees participation in a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457, with Nationwide Retirement Solutions (NRS). The assets of the plan are held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to 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 requirements, plan balances and activities are not reflected in the road commission's financial statements.

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 Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS is a nonprofit organization that was granted independence from the State of Michigan pursuant to Public Act 220 of 1996, 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.

*Benefits Provided--Defined Benefit.* The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, 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--Hybrid Plan.* Administrative salaried employees hired after January 1, 2007 and Office and Road Union employees hired after January 1, 2010 are enrolled in the MERS Hybrid Retirement Plan. Retirement benefits consist of a Defined Benefit component calculated as 1.5% of the employee's three year final average compensation and a Defined Contribution component.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The Road Commission and Employee will contribute to the Defined Contribution component of the Plan a percentage chosen at the time of hiring. All employees will be allowed to make additional contributions as allowed under the Plan, MERS regulations, and any applicable laws. The Road Commission contributes 1% to the defined contribution portion of the plan with the administrative salaried employees contributing a minimum 5% contribution to the Defined Contribution component of the Plan and office and road union employees contributing a minimum 3% in 2015, 4% in 2016, and 5% in 2017 and thereafter.

Employees will be 100% vested for Employer contributions to the Defined Contribution component of the Plan after six years of service. During the fiscal year, the Road Commission contributed \$3,150 and employees contributed \$9,739 to the defined contribution portion of the hybrid plan. The defined contribution portion is a 401 Qualified Plan utilizing Alerus as the third-party administrator.

Benefits Provided by Division

<u>Divison 1 - Union, Closed</u>	<u>2014 Valuation</u>
Benefit Multiplier	2.5% 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	5 Years
Employee Contributions	3%
Act 88	Yes
<u>Division 10 - Admin. Salaried, Closed</u>	<u>2014 Valuation</u>
Benefit Multiplier	2.5% 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	5 Years
COLA for Future Retirees	2.5% (Non-Compound)
COLA for Current Retirees	2.5% (Non-Compound)
Employee Contributions	5%
Act 88	Yes

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Division 11 - Admin. Hourly, Closed</u>	<u>2014 Valuation</u>
Benefit Multiplier	2.5% 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	5 Years
Employee Contributions	3%
Act 88	Yes
<u>Division HA - Admin. Salaried Hired After 1/1/08</u>	<u>2014 Valuation</u>
Benefit Multiplier	Hybrid Plan - 1.5% Multiplier
Normal Retirement Age	60
Vesting	6 Years
Final Average Compensation	3 Years
Employee Contributions	0%
Act 88	Yes
<u>Division HB - Union Hired After 1/1/11</u>	<u>2014 Valuation</u>
Benefit Multiplier	Hybrid Plan - 1.5% Multiplier
Normal Retirement Age	60
Vesting	6 Years
Final Average Compensation	3 Years
Employee Contributions	0%
Act 88	Yes

*Employees covered by benefit terms.* At the December 31, 2014 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>43</u>
Total employees covered by MERS Plan	<u><u>96</u></u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

*Contributions.* Article 9, Section 24 of the State of Michigan Constitution 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 employer may establish contribution rates to be paid by its covered employees.

For the year ending December 31, 2014, the active employee contribution rate are listed previously and the Road Commission's contribution rate of annual payroll was \$219,672 annually for Division 1 – Union, Closed; \$266,028 annually for Division 10 – Administrative Salary, Closed; \$5,592 annually for Division 11 - Administrative Hourly, Closed; 7.96% for Division HA – Administrative Salaried Hired after 1/1/08, and 7.15% for Division HB – Union Hired after 1/1/11.

Net Pension Liability

The net pension liability reported as of December 31, 2015, was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The December 31, 2014, total pension liability was determined by an actuarial valuation performed as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3-4%
Salary Increases	4.50% In the long term, 1 percent, 2 percent, and 3 percent for calendar years 2014, 2015, and 2016, respectively, including inflation
Investment Rate of Return	8.25% Gross of pension plan investment expense, including inflation

Mortality rates were based on the 1994 Group Annuity Mortality Table of a 50% male and 50% female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014, valuation were based on the results of the most recent actuarial experience study in 2008.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

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, 2014, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 8.25% for 2014. 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.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance as of December 31, 2013	\$ 18,657,165	\$ 11,830,227	\$ 6,826,938
Changes for the Year:			
Service Cost	232,992	-	232,992
Interest	1,502,255	-	1,502,255
Contributions - Employer	-	657,574	(657,574)
Contributions - Employee	-	64,053	(64,053)
Net Investment Income	-	737,953	(737,953)
Benefit Payments, Including Refunds	(1,129,007)	(1,129,007)	-
Administrative Expenses	-	(27,008)	27,008
Net Changes	606,240	303,565	302,675
Balance as of December 31, 2014	\$ 19,263,405	\$ 12,133,792	\$ 7,129,613

*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 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease	Current	1% Increase
	(7.25%)	Discount Rate (8.25%)	(9.25)
Net pension liability of the Road Commission	\$ 9,201,076	\$ 7,129,613	\$ 5,359,687

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

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, 2015, the Road Commission recognized pension expense of \$75,607. At December 31, 2015, the Road Commission reported deferred outflow of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>
Employer contributions to the plan subsequent to the measurement date*	\$ 708,544
Net difference between projected and actual earnings on pension plan investments**	<u>176,098</u>
Total	<u><u>\$ 884,642</u></u>

\*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, 2016.

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

<u>Years Ending December 31</u>	<u>Amount</u>
2016	\$ 44,024
2017	44,025
2018	44,024
2019	44,025

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE H--OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note G, the Road Commission administers a single-employer defined benefit healthcare plan reported as the Retiree Health Care Trust Fund and a health care savings plan reported as the Health Care Savings Plan on Exhibits G and H. The Road Commission provides post-employment healthcare insurance benefits to certain retired union and administrative employees through the Road Commission's group health insurance plan which covers both active and retired members. Benefit provisions are established through negotiations between the Road Commission and the union in accordance with the labor contract and personnel policy for non-union employees.

Funding Policy

Union Employees Hired Before February 10, 2015--Employees who retire under the MERS Retirement Plan with full retirement benefits, until they become Medicare eligible, will have the same coverage, deductibles, and contributions as active employees. Any contributions required, will be paid to the Road Commission in advance of the premium due date. Employees will be provided post-employment health benefits for the retiree only, in accordance with applicable laws. Employees who are entitled to retiree health benefits shall be vested for life upon retirement to receive the same coverage, deductibles, and contributions as active employees for single coverage only. If permitted by the insurance carrier, a retiree may purchase spousal and/or dependent coverage at the retiree's expense.

As soon as possible and until modified in the future, Medicare eligible retirees are required to elect Medicare A and B coverage and will be provided with the then applicable Medicare supplement. All Medicare eligible retirees will be responsible for all deductible expenses required under the Medicare Part B. It is required that the mail order drug program, or a pharmacy accepting the three month prescription fill for one co-pay, be utilized for all possible health maintenance drugs.

An employee who takes a deferred retirement shall be ineligible for retiree health coverage. Upon death of the retired employee, the Road Commission agrees to continue to make available health benefits for the surviving spouse, at the spouse's expense, until the surviving spouse remarries. Employees who retiree shall in no event have benefits greater than those provided to active employees.

Union Employees Hired On or After February 10, 2015--Employees hired on or after February 10, 2015, shall obtain post-employment health benefits solely through a MERS Health Care Savings Program (HSCP), which shall be sponsored by the Road Commission. An individual HCSP account will be established for each employee, upon hire with the Road Commission. Employees will receive deposits, made by the Road Commission into their individual HCSP accounts, of \$10,000 upon completion of their 10<sup>th</sup>, 15<sup>th</sup>, 20<sup>th</sup>, and 25<sup>th</sup> year of employment with the Road Commission. There shall be no prorating service time, so employees will not be entitled to any additional deposits until completing the required years of service for the next benefit level. Employees may make voluntary deposits (post-tax dollars) into their individual

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE H--OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

accounts, as desired. Each individual account shall be managed by MERS, in accordance with the applicable plan documents.

Administrative Salaried Employees for Fiscal Year 2015--For administrative employees hired prior to January 1, 2007, the Road Commission agrees to pay the full premium for hospitalization medical coverage for retired employees and their spouses. Employees who retire shall in no event have benefits greater than those provided to active employees. If the retired employee wishes to purchase full-family coverage, the employee shall pay the difference between the two person and full-family rate. This provision applies to employees who retire after January 1, 1975.

Administrative salaried employees will be provided health, prescription, dental, and vision coverage for themselves and their spouse as stated provided they retire under the MERS retirement plan with a minimum 20 years of service.

Upon the death of the retired employee, the Road Commission agrees to continue the above stated health insurance for the surviving spouse. After 20 years of service, spouses are entitled to health care benefits in the event of death of the employee. The Road Commission shall have the right to modify coverage.

Employees hired after January 1, 2007, will have health insurance, prescription, vision, and dental insurance provided for the employee only with availability of coverage for dependents with the full cost reimbursed by the retiree.

Medicare eligible retirees are required to elect Medicare A and B coverage and will be provided supplemental insurance, prescription \$10/\$40, dental, and vision insurance.

Administrative Salaried Employees for Fiscal Year 2016--The Road Commission amended its post-employment benefit for administrative employees, as set forth below.

Administrative Employees Who Retired Prior to January 1, 2016

For administrative employees who were hired prior to January 1, 2007, and retired prior to January 1, 2016, the Road Commission will pay for the retired employee and their spouse the amount of the total cost that the Road Commission is paying for current retiree post-employment health benefits at the level in effect as of January 1, 2016, under the terms set forth below. All other administrative employees who retired prior to January 1, 2016, will receive post-employment health care benefits for the retiree only.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE H--OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Subject to the applicable coverages set forth above, the Road Commission will continue to offer post-employment health benefits to: (i) those eligible retirees who are between the ages of 55 and 65 and their spouses, if applicable (a “Group 1 Retiree”); and (ii) those eligible retirees who are Medicare-eligible and their spouses, if applicable (a “Group 2 Retiree”), as described below.

1. Group 1 Retiree – The Road Commission will pay 100% of the dollar amount of the combined insurance policy premium cost for single or two person coverage (whichever is applicable) and the applicable illustrative cost of the Health Reimbursement Account (HRA) (together, the “Collective Premium Rate”) in effect as of January 1, 2016, for each retiree who is a Group 1 Retiree. Any increases in the Collective Premium Rate that occur after January 1, 2016, must be paid solely by the Group 1 Retiree and/or the Retiree’s spouse, and will not be paid by the Road Commission.
2. Group 2 Retiree – The Road Commission will pay 100% of the premium cost associated with a Medicare supplement insurance policy maintained by the Road Commission in effect as of January 1, 2016, for each retiree who is a Group 2 Retiree. Any increases in that cost of Medicare supplement insurance that occur after January 1, 2016, must be paid solely by the Group 2 Retiree and/or the Retiree’s spouse and will not be paid by the Road Commission.

Upon the death of a Group 1 or Group 2 Retiree, the Road Commission will continue the post-employment health benefits for the surviving spouse under the terms set forth above, until the surviving spouse remarries.

Administrative Employees Who Retire On or After January 1, 2016

Administrative employees hired prior to January 1, 2007, have the option to obtain post-employment benefits solely through a MERS Health Care Savings Program (HCSP), sponsored by the Road Commission. For those who elect this option, an individual HCSP account will be established in the individual’s name, and the Road Commission will make deposits into the individual HCSP account, as follows:

- After completion of 10 years of service, the Road Commission will make an initial deposit of \$50,000 into the individual’s HCSP account.
- For each full year of service completed by the individual from 11 to 25 years of service, the Road Commission will make an additional deposit of \$2,000.
- The maximum deposit to be made by the Road Commission for any individual is \$80,000 (\$50,000 initial deposit plus 15 annual deposits of \$2,000).

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE H--OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Administrative employees hired on or after January 1, 2007, also have the option to obtain post-employment health benefits solely through a MERS Health Care Savings Program (HCSP), sponsored by the Road Commission. For those who elect this option, an individual HCSP account will be established in the individual's name, and the Road Commission will make deposits into the individual HCSP account, as follows:

- After completion of 5 years of service, the Road Commission will make an initial deposit of \$20,000 into the individual's HCSP account.
- For each full year of service completed by the individual from 6 to 25 years of service, the Road Commission will make an additional deposit of \$1,000.
- The maximum deposit to be made by the Road Commission for any individual is \$40,000 (\$20,000 initial deposit plus 20 annual deposits of \$1,000).

The option for administrative employees to receive post-employment health benefits solely through an individual HCSP account is a one-time option, which must be elected in writing by March 1, 2016. Once elected, the option is irreversible.

Any administrative employee who does not receive post-employment health benefits solely through an individual HCSP account, shall receive medical coverage for themselves only, upon retirement.

Administrative Employees Hired Outside the Road Commission after January 1, 2016

Administrative employees who are hired outside the Road Commission on or after January 1, 2016, shall obtain post-employment health benefits solely through a MERS Health Care Savings Program (HCSP), sponsored by the Road Commission as follows:

- After completion of 10 years of service, the Road Commission will make an initial deposit of \$10,000 into the individual's HCSP account.
- After completion of 15 years of service, the Road Commission will make an additional deposit of \$10,000 into the individual's HCSP account.
- After completion of 20 years of service, the Road Commission will make an additional deposit of \$10,000 into the individual's HCSP account.
- After completion of 25 years of service, the Road Commission will make an additional deposit of \$10,000 into the individual's HCSP account.
- The maximum deposit to be made by the Road Commission for any individual is \$40,000 (\$10,000 initial deposit plus three additional deposits of \$10,000).

The Road Commission reserves the right to modify or terminate post-employment health benefits.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE H--OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

As of the 2014 valuation, 30 retirees and 24 spouses qualified for the defined benefit retiree health care. As of December 31, 2015, the health care savings plans have 11 active participants and 1 terminated participant. Expenditures for post-employment healthcare benefits are recognized when insurance premiums are paid. Net premiums paid by the Road Commission for defined benefit plan and health care savings plan during 2015 totaled \$600,000 and \$8,395, respectively.

Annual OPEB Cost and Net OPEB Obligation

The Road Commission's annual other post-employment 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 costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Funding Status and Funding Progress

For the year ending December 31, 2015, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2014, for fiscal years 2014 through 2016. The valuation computes an annual required contribution, which 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. The computed annual required contribution and actual funding are summarized as follows:

Funding Status and Funding Progress

For the year ended December 31, 2014, 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 the annual required contribution. The computed required contribution and actual funding are summarized as follows:

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE H--OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual Required Contribution	\$ 785,416
Interest on Beginning of Year Net OPEB Obligation	129,005
ARC Adjustment	<u>(178,283)</u>
Annual OPEB Cost	736,138
Amounts Contributed	
Payments of Current Premiums	(460,797)
Additional Contributions	<u>(600,000)</u>
Decrease in Net OPEB Obligation	(324,659)
Net OPEB Obligation--Beginning of Year	<u>2,150,088</u>
Net OPEB Obligation--End of Year	<u><u>\$ 1,825,429</u></u>

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 ending December 31, 2015, and the preceding years, are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Annual OPEB Costs	\$ 843,560	\$ 683,321	\$ 736,138
Percentage Contributed	104%	150%	144%
Net OPEB Obligation	\$ 2,492,270	\$ 2,150,088	\$ 1,825,429

The funding status of the trust as of December 31, 2014, the most recent actuarial valuation date is as follows:

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
12/31/2014	\$ 1,155,781	\$ 9,378,719	\$ 8,222,938	12%	n/a	n/a

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. Three years are presented by the road commission which expects to have an actuarial valuation performed every three years.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE H--OTHER POST-EMPLOYMENT HEALTH CARE 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 includes the types of benefits provided at the time of each valuation and the historical pattern of sharing 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 healthcare cost projections.

Actuarial Methods

1. Actuarial Cost Method: Entry Age Normal
2. Amortization Method: Level Percent, Closed
3. Amortization Period: 15 years as of January 1, 2014
4. Asset Valuation Method: Market Value as of Valuation Date

Actuarial Assumptions

1. Discount Rate: 6%
2. Salary Scale: 4.5%
3. Return on Plan Assets: 6%
4. Mortality Rate:
  - a. Pre-retirement – IRS 2014 Non-Annuitant, sex distinct, mortality table
  - b. Post-retirement – IRS 2014 Annuitant, sex distinct, mortality table
5. Utilization: 100% of eligible active employees will elect coverage at retirement.
6. Marital: 70% with females three years younger than males; actual marital status and coverage used for retirees.

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 for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents), crime, and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE I--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) pursuant to the provisions of PA 138 of 1982. The MCRCSIP 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 within the State.

The MCRCSIP 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.

If for any reason the MCRCSIP's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

The road commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The road commission's insurance carrier estimates that the potential claims against the road commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the road commission.

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 calendar year ended December 31, 2015, Federal grants received and expended by the road commission was \$2,664,723 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administered 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.

During the calendar year ended December 31, 2015, the road commission received \$0 in Federal grants for negotiated projects. Negotiated projects are projects that are performed by the road commission and are subject to single audit requirements, if the amount expended is \$750,000 or more. A single audit was not performed during the calendar year ended December 31, 2015.

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The difference between the State Trunkline Maintenance revenues of \$931,683 and expenditures of \$823,724 is the result of Michigan Department of Transportation's (MDOT) auditor's report 2015-120 for contract 2015-120. The report included adjustments for fringe benefits, equipment rental, and overhead. The result of the audits was an increased payment of \$107,959.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE L--RESATEMENT TO NET POSITION

During the current fiscal year, the Road Commission adopted GASB Statement Number 68, *Accounting and Financial Reporting for Pensions*. Due to this implementation, the government-wide statements now include a net pension liability for unfunded pension obligations. The statement of net position is restated to record the liability as of January 1, 2015:

	<u>Governmental Activities</u>
Beginning Net Position--January 1, 2015	\$ 59,817,197
Less net pension liability recorded for the implementation of GASB 68	<u>(6,169,364)</u>
Restated Beginning Net Position--January 1, 2015	<u><u>\$ 53,647,833</u></u>

NOTE M--CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year, the Road Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 which required governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability is now recorded on the government-wide statements and is computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

Coinciding with the implementation of GASB Statement No. 68, the Road Commission also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment to GASB Statement No. 68*. The statement addressed the issue regarding the application of the transition provisions of GASB Statement No. 68 relating to the amounts associated with contributions made by the Road Commission to the defined benefit pension plan after the measurement date of the Road Commission's beginning net pension liability. GASB Statement No. 71 amends GASB Statement No. 68 to require that at transition, the Road Commission recognizes a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2015

NOTE N--UPCOMING REPORTING CHANGE

In February 2015, the GASB issued GASB statement No. 72, *Fair Value Measurement and Application*. The requirement of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the Road Commission's 2016 fiscal year.

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 City 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.

**CLINTON COUNTY ROAD COMMISSION**  
**SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S**  
**NET PENSION LIABILITY AND RELATED RATIOS\***  
**For the Fiscal Year Ended December 31, 2015**

**SCHEDULE 1**

	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 232,992
Interest	1,502,255
Benefit payments including employee refunds	<u>(1,129,007)</u>
Net Change in Total Pension Liability	<u>606,240</u>
Total Pension Liability beginning	<u>18,657,165</u>
Total Pension Liability ending	<u>\$ 19,263,405</u>
Plan Fiduciary Net Position	
Contributions-employer	\$ 657,574
Contributions-employee	64,053
Net Investment income	737,953
Benefit payments including employee refunds	(1,129,007)
Administrative expense	<u>(27,008)</u>
Net Change in Plan Fiduciary Net Position	<u>303,565</u>
Plan Fiduciary Net Position beginning	<u>11,830,227</u>
Plan Fiduciary Net Position ending	<u>\$ 12,133,792</u>
Employer Net Pension Liability	<u>\$ 7,129,613</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	63%
Covered Employee Payroll	\$ 2,176,821
Employer's Net Pension Liability as a percentage of covered employee payroll	328%

Notes to schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2014 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.

**CLINTON COUNTY ROAD COMMISSION**  
**SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS**  
**For the Fiscal Year Ended December 31, 2015**

**SCHEDULE 2**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarial Determined Contributions	\$ 510,638	\$ 492,722	\$ 449,133	\$ 410,251	\$ 424,658	\$ 408,501	\$ 334,704	\$ 340,155	\$ 308,190	\$ 224,418
Contributions in relation to the actuarially determined contribution	657,574	492,722	449,133	410,251	424,658	408,501	334,704	340,155	308,190	224,418
Contribution deficiency (excess)	\$ (146,936)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 2,176,821	\$ 2,024,974	\$ 2,131,939	\$ 2,260,723	\$ 2,131,939	\$ 2,260,723	\$ 2,378,809	\$ 2,563,886	\$ 2,518,385	\$ 2,420,068
Contributions as a percentage of covered employee payroll	30%	24%	21%	18%	20%	18%	14%	13%	12%	9%

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 18 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	3% to 4%
Salary Increases	4.5%, including inflation
Investment rate of return	8.0%
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

**CLINTON COUNTY ROAD COMMISSION**  
**SCHEDULE OF FUNDING PROGRESS--OTHER POST-EMPLOYMENT BENEFITS**  
**For the Fiscal Year Ended December 31, 2015**

**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
12/31/12	\$ 510,467	10,720,603	\$ 10,210,136	5%	2,199,406	464%
12/31/13	1,155,781	9,378,719	8,222,938	12%	n/a	n/a
12/31/14	2,357,576	9,378,719	7,021,143	25%	2,317,225	303%

**CLINTON COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND--SCHEDULE OF REVENUES  
BUDGETARY COMPARISON SCHEDULE  
For the Fiscal Year Ended December 31, 2015**

**EXHIBIT I**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 60,000	\$ 57,000	\$ 57,050	\$ 50
Federal Grants				
Surface Transportation Program	1,256,600	1,376,600	1,447,610	71,010
Critical Bridge	831,400	748,100	748,143	43
D Funds	100,000	-	19	19
Transportation Alternative Program	-	468,951	468,951	-
CMAQ	100	-	-	-
High Risk Rural Roads	100	-	-	-
Hazard Elimination	20,000	-	-	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,650,000	3,797,000	3,821,551	24,551
Local Road	1,970,000	2,045,000	2,074,323	29,323
Primary Urban Road	470,000	466,000	466,155	155
Local Urban Road	182,000	182,000	187,980	5,980
Critical Bridge	165,200	140,500	140,565	65
Economic Development Funds				
D Funds	100,000	100,000	100,287	287
F Funds	250	(50)	-	50
Other State Grants	429,264	286,348	802,454	516,106
Contributions--Local Units				
Cities and Villages	1,000	200	300	100
Townships	2,700,000	2,100,000	2,350,848	250,848
Charges for Services				
State Trunkline Maintenance	900,000	815,000	931,683	116,683
Salvage Sales	12,000	4,000	6,886	2,886
Other Charges for Services	50,250	49,205	27,734	(21,471)
Interest and Rents				
Interest Earned	9,000	6,000	6,136	136
Property Rentals	11,000	10,499	10,507	8
Other Revenue				
Private Contributions	15,000	130,000	168,964	38,964
Other Revenue	10,000	23,200	40,196	16,996
Gain on Equipment Disposal	90,000	(5,503)	(5,716)	(213)
Total Revenues	13,043,164	12,810,050	\$ 13,862,626	\$ 1,052,576
Fund Balance--January 1, 2015	3,378,202	2,951,312		
Total Budget	\$ 16,421,366	\$ 15,761,362		

**CLINTON COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**GENERAL OPERATING FUND--SCHEDULE OF EXPENDITURES**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Fiscal Year Ended December 31, 2015**

**EXHIBIT J**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 2,432,150	\$ 2,032,150	\$ 1,623,022	\$ 409,128
Routine and Preventive Maintenance	2,203,500	2,326,300	2,323,170	3,130
Local Road				
Construction/Capacity Improvements	-	133,155	132,230	925
Preservation/Structural Improvements	750,000	1,026,300	1,026,086	214
Routine and Preventive Maintenance	3,213,000	4,256,200	4,249,181	7,019
Primary Road Structure				
Preservation/Structural Improvements	460,000	800,000	749,702	50,298
Routine and Preventive Maintenance	5,000	10,500	9,341	1,159
Local Road Structure				
Preservation/Structural Improvements	665,000	771,800	771,515	285
Routine and Preventive Maintenance	5,000	17,000	16,299	701
State Trunkline Maintenance	900,000	832,539	823,724	8,815
Equipment Expense--Net	(75,000)	167,892		
Direct			\$ 1,133,536	
Indirect			561,753	
Operating			240,415	
Less: Equipment Rentals			(1,802,162)	34,350
Distributive Expenditures	2,547,000	-	-	-
Administrative Expense--Net	833,237	719,843		
Administrative Expense			782,033	
Less: Handling Charges			(1,335)	
Overhead--State			(96,867)	
Overhead--Other			(1,468)	
Purchase Discounts			(3,363)	40,843
Non-Road Projects	48,000	841,842	817,999	23,843
Drain Assessments	38,229	38,229	38,228	1
Capital Outlay--Net	(399,000)	(365,200)		
Capital Outlay			71,446	
Less: Depreciation Credits			(470,457)	
Equipment Retirements			(5,715)	39,526
Total Expenditures	13,626,116	13,608,550	\$ 12,988,313	\$ 620,237
Fund Balance--December 31, 2015	2,795,250	2,152,812		
Total Budget	\$ 16,421,366	\$ 15,761,362		

**CLINTON COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Fiscal Year Ended December 31, 2015**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 6,857,943	\$ 5,301,028	\$ 1,703,655	\$ 13,862,626
Total Expenditures	<u>5,043,119</u>	<u>6,685,316</u>	<u>1,259,878</u>	<u>12,988,313</u>
Excess of Revenues Over (Under) Expenditures	<u>1,814,824</u>	<u>(1,384,288)</u>	<u>443,777</u>	<u>874,313</u>
Other Financing Sources (Uses) Optional Transfers	<u>(1,860,776)</u>	<u>1,860,776</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(1,860,776)</u>	<u>1,860,776</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(45,952)	476,488	443,777	874,313
Fund Balance--January 1, 2015	<u>45,952</u>	<u>249,617</u>	<u>4,279,402</u>	<u>4,574,971</u>
Fund Balance--December 31, 2015	<u>\$ -</u>	<u>\$ 726,105</u>	<u>\$ 4,723,179</u>	<u>\$ 5,449,284</u>

**CLINTON COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF REVENUES  
For the Fiscal Year Ended December 31, 2015**

**EXHIBIT L**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits	\$ 570	\$ 2,853	\$ 53,627	\$ 57,050
Federal Grants				
Surface Transportation Program	1,447,610	-	-	1,447,610
Critical Bridge	204,298	543,845	-	748,143
D Funds	19	-	-	19
Transportation Alternative Program	(29,071)	-	498,022	468,951
State Grants				
Michigan Transportation Fund				
Engineering	6,482	3,518	-	10,000
Allocation	3,821,551	2,074,323	-	5,895,874
Urban Roads	466,155	187,980	-	654,135
Critical Bridge	37,527	103,038	-	140,565
Economic Development Fund				
Rural Primary (D)	100,287	-	-	100,287
Other State Grants	802,454	-	-	802,454
Contributions--Local Units				
Cities and Villages	-	300	-	300
Townships	-	2,350,848	-	2,350,848
Charges for Services				
State Trunkline Maintenance	-	-	931,683	931,683
Salvage Sales	-	-	6,886	6,886
Other Charges for Services	-	-	27,734	27,734
Interest and Rents				
Interest Earned	61	307	5,768	6,136
Property Rentals	-	-	10,507	10,507
Other Revenue				
Private Contributions	-	34,016	134,948	168,964
Other Revenue	-	-	40,196	40,196
Gain/(Loss) on Equipment Disposal	-	-	(5,716)	(5,716)
Total Revenues	<u>\$ 6,857,943</u>	<u>\$ 5,301,028</u>	<u>\$ 1,703,655</u>	<u>\$ 13,862,626</u>

**CLINTON COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Fiscal Year Ended December 31, 2015**

**EXHIBIT M**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
<b>Primary Road</b>				
Preservation/Structural Improvements	\$ 1,623,022	\$ -	\$ -	\$ 1,623,022
Routine and Preventive Maintenance	2,323,170	-	-	2,323,170
<b>Local Road</b>				
Construction/Capacity Improvements	-	132,230	-	132,230
Preservation/Structural Improvements	-	1,026,086	-	1,026,086
Routine and Preventive Maintenance	-	4,249,181	-	4,249,181
<b>Primary Road Structures</b>				
Preservation/Structural Improvements	749,702	-	-	749,702
Routine and Preventive Maintenance	9,341	-	-	9,341
<b>Local Road Structures</b>				
Preservation/Structural Improvements	-	771,515	-	771,515
Routine and Preventive Maintenance	-	16,299	-	16,299
State Trunkline Maintenance	-	-	823,724	823,724
Equipment Expense--Net (Per Exhibit J)	34,205	76,456	22,881	133,542
Administrative Expense--Net (Per Exhibit J)	293,092	385,908	-	679,000
Drain Assessment	10,587	27,641	-	38,228
Nonroad Projects	-	-	817,999	817,999
Capital Outlay--Net (Per Exhibit J)	-	-	(404,726)	(404,726)
<b>Total Expenditures</b>	<b>\$ 5,043,119</b>	<b>\$ 6,685,316</b>	<b>\$ 1,259,878</b>	<b>\$ 12,988,313</b>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

April 18, 2016

Board of County Road Commissioners  
Clinton County Road Commission  
3536 South BR 127  
St. Johns, Michigan 48879

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 and the major fund of the Clinton County Road Commission, Clinton County, Michigan, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Clinton County Road Commission's basic financial statements, and have issued our report thereon dated April 18, 2016.

**Internal Control Over Financial Reporting**

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

### **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 Clinton 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 Clinton 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

Local Government Financial Services Division



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

April 18, 2016

Board of County Road Commissioners  
Clinton County Road Commission  
3536 South BR 127  
St. Johns, Michigan 48879

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 Clinton County Road Commission, Clinton County, Michigan, for the fiscal year ended December 31, 2015, and have issued our report thereon dated April 18, 2016. 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 May 6, 2015, 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 Clinton 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 Clinton 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 February 23, 2016, with management.

#### Significant Results of the Audit

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Clinton County Road Commission are described in Note A to the financial statements. As described in Note M, during the fiscal year ended December 31, 2015, the Road Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement of net position now includes a liability for unfunded pension costs on the government-wide statements. We noted no transactions entered into by the Clinton 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 post-employment 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 health care, 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 April 18, 2016.

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 Clinton 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 Clinton 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.

Clinton County Road Commission

Page 4

April 18, 2016

This information is intended solely for the use of the Clinton County Road Commission's Board of County Road Commissioners and management of the Clinton 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

Local Government Financial Services Division