

**CLARE COUNTY ROAD COMMISSION
FINANCIAL REPORT
SEPTEMBER 30, 2016**

CLARE COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Richard Haynak
Commissioner

Michael Duggan
Commissioner

Julie Lightfoot
Commissioner

Deepak Gupta
Manager

Kim Kimmel
Finance Director

Donna Henke
Administrative Assistant

CLARE COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet	12
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16-32
Required Supplemental Information:	
Statement of Revenues and Other Financing Sources - Budgetary Comparison Schedule	33
Statement of Expenditures - Budgetary Comparison Schedule	34
Schedule 1 - Schedule of Changes in Road Commission's Net Pension Liability (Asset) and Related Ratios	35
Schedule 2 - Schedule of Road Commission Pension Contributions	36
Schedule 3 - Schedule of Funding Progress - Other Post-Employment Benefits.	37
Supplemental Schedules:	
Analysis of Changes of Fund Balances	38
Analysis of Revenues and Other Financing Sources	39
Analysis of Expenditures	40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	41-43
Independent Auditor's Report on Compliance with Public Act 51 of 1951 (Act 51) and on Internal Control Over Compliance Required By Public Act 298 of 2012	44-45



James M. Anderson, P.C.

Certified Public Accountant

P.O. Box 255 · Roscommon, MI 48653
Phone: (989) 821-8601 · Fax: (989) 563-3471 · E-mail: janderson@jmacpapc.com

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

January 19, 2017

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedules of funding progress for pensions and other post-employee benefits on pages 4-9 and 33-34 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clare County Road Commission's basic financial statements. The accompanying supplementary and related information presented on pages 38-40 for purposes of additional analysis and is not a required a part of the basic financial statements.

The accompanying supplementary and related information presented on pages 38-40 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 my opinion, the accompanying supplementary and related information presented on pages 39-41 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*, I have also issued my report dated January 19, 2017, on my consideration of the Clare County Road Commission's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Clare County Road Commission's internal control over financial reporting and compliance.



JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

Our discussion and analysis of Clare County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2016. This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the road Commission:

The first statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets, deferred outflows, liabilities and deferred outflows. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net position and how they have changed. "Net Position" is the difference between the assets and liabilities. This is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE ROAD COMMISSION AS A WHOLE

Government-Wide Statements

The Statement of Net Position and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the Road Commission's assets, deferred outflows, liabilities and deferred inflows, using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2016

The two statements, mentioned above, report the road commission's net position and how they have changed. The reader can think of the road commission's net position (the difference between assets, deferred outflows, liabilities and deferred inflows) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net position are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the road commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The road commission currently has only one fund, the general operations fund. All of the road commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the road commission's major fund begins on this page. The fund financial statements begin on page 12 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The road commission's net position increased 3.90% from \$27,587,885 to \$28,664,377 as of September 30, 2016. The net position is summarized below.

Net Position

Restricted net position are the portions of net position that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2016

The investment in capital assets, net of related debt, was \$27,610,571 at September 30, 2015 and \$29,016,660 as of September 30, 2016. The change in net position is primarily the result of capitalizing infrastructure of \$3,634,838 and equipment purchases offset by current year depreciation. The restricted net position decreased by \$329,597 during the current year.

Net position as of year ended September 30, 2016 and September 30, 2015.

	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>Increase/ Decrease</u>
Assets			
Current and Other Assets	\$ 5,261,686	\$ 5,346,077	\$ (84,391)
Capital Assets (Net)	29,016,660	27,610,571	1,406,089
Total Assets	<u>34,278,346</u>	<u>32,956,648</u>	<u>1,321,698</u>
Deferred Outflows	<u>1,583,979</u>	<u>459,963</u>	<u>1,124,016</u>
Liabilities			
Long-Term Debt Outstanding	5,994,275	4,848,018	1,146,257
Other Liabilities	1,203,673	980,708	222,965
Total Liabilities	<u>7,197,948</u>	<u>5,828,726</u>	<u>1,369,222</u>
Net Position			
Invested in Capital Assets	29,016,660	27,610,571	1,406,089
Restricted	(352,283)	(22,686)	(329,597)
Total Net Position	<u>\$ 28,664,377</u>	<u>\$ 27,587,885</u>	<u>\$ 1,076,492</u>

Changes in Net Position

A summary of changes in net position follows:

	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>Increase/ Decrease</u>
Program Revenues			
Charges for Services	\$ 1,044,940	\$ 1,189,100	\$ (144,160)
Operating Grants and Contributions	6,296,944	5,131,193	1,165,751
Capital Grants and Contributions	1,064,892	1,510,589	(445,697)
General Revenues			
Gain (Loss) on Disposals	15,630	2,787	12,843
Interest Earnings	26,507	27,656	(1,149)
Other	7,604	21,407	(13,803)
Total Revenues	<u>8,456,517</u>	<u>7,882,732</u>	<u>573,785</u>
Program Expenses			
Public Works	7,380,025	7,434,130	(54,105)
Interest Expense	-	-	-
Total Program Expenses	<u>7,380,025</u>	<u>7,434,130</u>	<u>(54,105)</u>
Changes in Net Position	1,076,492	448,602	627,890
Net Position - Beginning of Year	27,587,885	27,139,283	448,602
Net Position - End of Year	<u>\$ 28,664,377</u>	<u>\$ 27,587,885</u>	<u>\$ 1,076,492</u>

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2016

The Road commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in the Operating Fund is as follows:

Revenues	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>Increase/ Decrease</u>
Licenses and Permits	\$ 28,450	\$ 23,250	\$ 5,200
Federal	910,059	938,452	(28,393)
State	4,888,971	4,842,247	46,724
Local	1,562,806	861,083	701,723
Charges for Services	1,016,490	1,165,850	(149,360)
Interest and Rents	26,507	27,656	(1,149)
Other	23,234	24,194	(960)
Total Revenues	<u>8,456,517</u>	<u>7,882,732</u>	<u>573,785</u>
Expenditures			
Public Works	8,653,750	8,127,685	526,065
Net Capital Outlay	110,123	251,001	(140,878)
Debt Service	-	-	-
Total Expenditures	<u>8,763,873</u>	<u>8,378,686</u>	<u>385,187</u>
Excess of Revenues Over (Under)	(307,356)	(495,954)	188,598
Expenditures			
Fund Balance - January 1	<u>4,365,369</u>	<u>4,861,323</u>	<u>(495,954)</u>
Fund Balance - December 31	<u>\$ 4,058,013</u>	<u>\$ 4,365,369</u>	<u>\$ (307,356)</u>

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2016 was \$1,481,934 higher than the original budget.

The final amended expenditure budget for 2016 was \$1,287,115 higher than the original budget primarily due to an expected increase in Trunkline maintenance offset by a reduced net equipment expense. The actual expenditures incurred during 2016 were more than the final amended budget by \$705,408 primarily due to net administrative being less than anticipated offset by overages in Primary and Local Road expenses. There were six unfavorable variances in expenditure line items.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2016

Capital Assets

As of the respective year ends, the road commission had invested the following in net capital assets:

	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>Increase/ Decrease</u>
Capital Assets Not Being Depreciated:			
Land and Improvements	\$ 187,883	\$ 187,883	\$ -
Subtotal	<u>187,883</u>	<u>187,883</u>	<u>-</u>
Capital Assets Being Depreciated:			
Buildings	1,415,755	1,366,974	48,781
Road Equipment	7,767,703	7,312,366	455,337
Shop Equipment	237,133	233,103	4,030
Office Equipment	121,838	119,985	1,853
Engineers Equipment	54,324	54,324	-
Yard & Storage Equipment	235,412	235,412	-
Infrastructure - Bridges	11,481,303	11,387,227	94,076
Infrastructure - Roads	52,835,883	49,295,121	3,540,762
Subtotal	<u>74,149,351</u>	<u>70,004,512</u>	<u>4,144,839</u>
Total Capital Assets	<u>74,337,234</u>	<u>70,192,395</u>	<u>4,144,839</u>
Total Accumulated Depreciation	<u>45,320,574</u>	<u>42,581,824</u>	<u>2,738,750</u>
Total Net Capital Assets	<u>\$ 29,016,660</u>	<u>\$ 27,610,571</u>	<u>\$ 1,406,089</u>
Debt Related to capital assets - bonds and installment agreements			<u>\$ -</u>

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$3,634,838. The infrastructure recorded, during 2016 will be depreciated in the following years. The infrastructure is financed through Federal, State and local contributions.

Debt

As of September 30, 2016 the road commission had a compensated absences liability accrued in the amount of \$198,417.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2016

Economic Factors and Next Year's Budget

The Road Commission as a Whole

We had a great year in 2016 and accomplished numerous road projects. The Michigan Transportation Fund (MTF) revenue is expected to increase approximately \$968,500 for 2017.

Federal and State Funded Road Projects

There is one Federal/State funded project scheduled for Clare County in 2017.

1. Chip and Seal program, \$533,900 STP and \$77,817 State and \$121,424 local match.

Township Work

in 2017, we expect 14 of the 16 townships to participate in road construction projects. This has been spurred by an increased \$20,000/\$40,000 match program. We believe this continued participation is based on trust by townships with the road commission in delivering cost efficient projects in a timely manner.

Capital Assets

In 2016, the road commission purchased two tandem axle and two single axle blade trucks equipped with snow wing plows, two V-bottom trailers, skid steer, two pickups, building upgrades, computer equipment upgrades, shop tools/equipment, and other miscellaneous equipment and assets.

Projected equipment purchases for 2017: one new tandem axle blade truck, 5th Wheel tractor, service truck trailer, one pickup and other minor equipment.

Next Year's Forecast

With some additional revenue coming in and our decision to responsibly reduce our fund balance, this will allow us to have another great year in delivering road construction projects. Beyond 2017, we look to 2018 with additional funding from the road bill to continue our aggressive road improvement programs.

Closing

This financial report is intended to provide our citizens, taxpayers and the general public with a general overview of the road commission's finances and how they are being spent.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Assets	
Cash and Equivalents	\$ 2,203,023
Investments	503,438
Accounts receivable:	
Sundry	4,000
Due from other governmental units	2,273,851
Inventories	277,374
Capital Assets (Net of Accumulated Depreciation)	<u>29,016,660</u>
Total Assets	<u>34,278,346</u>
 Deferred Outflows of Resources	 <u>1,583,979</u>
 Liabilities	
Current Liabilities	
Accounts payable	872,708
Accrued liabilities	34,492
Advances from governmental units	296,473
 Non Current Liabilities	
Vested Employee Benefits Payable	198,417
Post Employment Benefit Liabilities	1,701,781
Net Pension Liability	<u>4,094,077</u>
Total Liabilities	<u>7,197,948</u>
 Net Position	
Net Investment in Capital Assets	29,016,660
Restricted for County Roads	<u>(352,283)</u>
Total Net Position	<u><u>\$ 28,664,377</u></u>

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

CLARE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Program Expenses	
Primary Road Maintenance	\$ 2,066,087
Local Road Maintenance	2,305,822
State Trunkline Maintenance	1,157,349
Net Equipment Expense	(900,103)
Net Administrative Expense	389,755
Infrastructure Depreciation	2,338,874
Compensated Absences	7,596
Post Employment Benefits	61,107
Pension Expense	(46,462)
	<hr/>
Total Program Expenses	7,380,025
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	28,450
Charges for Services	1,016,490
Operating Grants and Contributions	
Michigan Transportation Funds	4,734,138
Interest Earnings	26,507
Contributions from Local Units	1,562,806
Capital Grants and Contributions	
Federal Grants	910,059
State Grants	154,833
	<hr/>
Total Program Revenues	8,433,283
	<hr/>
Net Program Revenues (Expenses)	1,053,258
	<hr/>
General Revenues	
Gain (Loss) on Disposal of Assets	15,630
Other	7,604
	<hr/>
Total General Revenues	23,234
	<hr/>
Change in Net Position	1,076,492
Net Position - Beginning Balance	27,587,885
	<hr/>
Net Position - Ending Balance	\$ 28,664,377
	<hr/> <hr/>

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

CLARE COUNTY ROAD COMMISSION
BALANCE SHEET
SEPTEMBER 30, 2016

	Governmental Fund Type
	General Operating
Assets	
Imprest cash	\$ 250
Cash demand and time deposits	2,202,773
Investments	503,438
Accounts receivable:	
Sundry	4,000
Due from other governmental units	2,273,851
Inventories	277,374
Total Assets	\$ 5,261,686
Liabilities	
Accounts payable	\$ 872,708
Accrued liabilities	34,492
Advances from governmental units	296,473
Total Liabilities	1,203,673
Fund Balances	
Non-Spendable	277,374
Unassigned	3,780,639
Total Fund Balances	4,058,013
Total Liabilities and Fund Balances	\$ 5,261,686

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

CLARE COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Total governmental fund balance	\$ 4,058,013
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	29,016,660
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.	(198,417)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities.	(1,701,781)
Net pension liability is not due and payable in the current period and is not reported in the funds.	(4,094,077)
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>1,583,979</u>
Net position of governmental activities	<u>\$ 28,664,377</u>

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

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
SEPTEMBER 30, 2016

	Governmental Fund Type
	General Operating
Revenues	
Licenses and Permits	\$ 28,450
Federal Sources	910,059
State Sources	4,888,971
Contributions from Local Units	1,562,806
Charges for Services	1,016,490
Interest and Rents	26,507
Other	23,234
	8,456,517
Expenditures	
Public Works	8,653,750
Net Capital Outlay	110,123
	8,763,873
Excess of Revenues Over (Under) Expenditures	(307,356)
Fund Balance - Beginning of Year	4,365,369
Fund Balance - End of Year	\$ 4,058,013

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

CLARE COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net Change in fund balance - total governmental funds \$ (307,356)

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	4,346,521
Deduct - Depreciation Expense	(2,938,942)
Deduct - Book Value of Fixed Assets Disposed	(1,490)

(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.	(7,596)
---	---------

Other postemployment benefit obligation expense is recognized in the Statement of Activities, but not in the government funds.	(61,107)
--	----------

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>46,462</u>
--	---------------

Change in Net Position of Governmental Activities.	<u><u>\$ 1,076,492</u></u>
--	----------------------------

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

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clare County Road Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

REPORTING ENTITY AND FUND TYPE - The County Road Commission's financial activity is considered a Governmental Special Revenue Fund Type and a reporting agency of Clare County in accordance with the established criteria in Statement No. 61, "The Financial Reporting Entity", issued by the Governmental Accounting Standards Board.

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (ie., the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the Clare 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, deferred outflows, liabilities, and deferred inflows with the difference being reported as either invested in capital assets, net of related debt or restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense 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.

BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The 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.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING - GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

CASH, CASH EQUIVALENTS 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.

INVENTORY

Inventories consisting of equipment parts and supplies of \$170,540 and road materials of \$106,834, are stated at cost based on the first in - first out (FIFO) method. Inventory items are charged to equipment repairs and operations, and to road construction and maintenance as used.

PRE-PAID EXPENSES

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

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Clare County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at 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.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Clare County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net position.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTES A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

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:

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

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net position.

USE OF ESTIMATES

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

BUDGETS AND BUDGETARY ACCOUNTING

The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

DEFERRED OUTFLOWS OF RESOURCES - In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has items that qualify for reporting in this category related to the net pension liability which is discussed in Note D.

DEFERRED INFLOWS OF RESOURCES - In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has no items that qualify for reporting in this category.

PENSIONS - For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016

NOTES A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

FUND BALANCE - Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the Road Commission is bound to honor constraints on the specific purpose for which amounts can be spent.

1. Non-spendable fund balance (inherently non-spendable)
2. Restricted fund balance (externally enforceable limitations on use)
3. Committed fund balance (self-imposed limitations on use)
4. Assigned fund balance (limitation resulting from intended use)
5. Unassigned fund balance (the residual classification of the general fund)

As a general rule, when multiple categories of fund balance are available for expenditure, the Road Commission will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

NOTE B - CASH AND INVESTMENTS

Michigan compiled Laws 129.91, authorizes the Road Commission to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other 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; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

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:

Imprest Cash	\$ 250
Cash demand and time deposits	2,202,773
Investments	<u>503,438</u>
Total	<u>\$2,706,461</u>

Deposits

Cash and cash equivalents are considered to be cash on demand, demand deposits and short term investments with original maturities of three months or less from date of acquisition. At year-end the carrying amount of the County Road Commissions deposits were \$2,202,773 and the bank balance was \$2,272,393. According to the Federal Deposit Insurance Corporation, approximately 33% of the total bank balance was covered by federal depository insurance.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE B - 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 municipal money markets.

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 September 30, 2016, the road commission had one investment as defined above in U.S. Securities held by Morgan Stanley in the amount of \$503,438.

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 investment policy of the Road Commission contains no limitations on the amounts 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.

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 a local government's indirect investment in securities through the use of mutual funds or government investment pools.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance</u> <u>10/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2016</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 187,883	\$ -	\$ -	\$ 187,883
Subtotal	<u>187,883</u>	<u>-</u>	<u>-</u>	<u>187,883</u>
Capital Assets Being Depreciated:				
Buildings	1,366,974	48,781	-	1,415,755
Road Equipment	7,312,366	654,637	199,300	7,767,703
Shop Equipment	233,103	6,124	2,094	237,133
Office Equipment	119,985	2,141	288	121,838
Engineers Equipment	54,324	-	-	54,324
Yard & Storage Equipment	235,412	-	-	235,412
Infrastructure - Bridges	11,387,227	94,076	-	11,481,303
Infrastructure - Roads	<u>49,295,121</u>	<u>3,540,762</u>	<u>-</u>	<u>52,835,883</u>
Total	<u>70,004,512</u>	<u>4,346,521</u>	<u>201,682</u>	<u>74,149,351</u>
Less Accumulated Depreciation:				
Buildings	1,005,328	34,193	-	1,039,521
Road Equipment	6,027,433	528,404	197,810	6,358,027
Shop Equipment	160,195	11,727	2,094	169,828
Office Equipment	65,704	10,334	288	75,750
Engineers Equipment	33,859	2,299	-	36,158
Yard & Storage Equipment	137,290	13,111	-	150,401
Infrastructure - Bridges	3,535,916	233,937	-	3,769,853
Infrastructure - Roads	<u>31,616,099</u>	<u>2,104,937</u>	<u>-</u>	<u>33,721,036</u>
Total	<u>42,581,824</u>	<u>2,938,942</u>	<u>200,192</u>	<u>45,320,574</u>
Net Capital Assets Being Depreciated	<u>27,422,688</u>	<u>1,407,579</u>	<u>1,490</u>	<u>28,828,777</u>
Total Net Capital Assets	<u>\$ 27,610,571</u>	<u>\$ 1,407,579</u>	<u>\$ 1,490</u>	<u>\$ 29,016,660</u>

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016

NOTE D - MICHIGAN EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description - The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer 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 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 www.mersofmich.com.

Benefits Provided:

	General Closed to New Hires	Non Union Closed to New Hires	Non Union Hired After 3/1/2013	General Hired After 9/1/2014
Benefit Multiplier:	2.50% (80% max)	2.50% (80% max)	2.00% (no max)	1.50% (no max)
Normal Retirement Age:	60	60	60	60
Vesting:	10 years	10 years	10 years	10 years
Early Retirement (Unreduced):	55/30	55/30	-	-
Early Retirement (Reduced):	50/25 55/15	50/25 55/15	50/25 55/15	50/25 55/15
Final Average Compensation:	5 years	5 years	5 years	5 years
Employee Contributions:	5%	0%	5%	5%
Act 88:	Yes	Yes	Yes	Yes

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE D - MICHIGAN EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Employees covered by benefit terms - At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	39
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>34</u>
Total Employees covered by MERS Plan	<u>77</u>

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 the 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 September 30, 2016, the active employee contribution was 5% of annual pay and the Road Commission's contribution rate of annual payroll was an average of 48.50%.

Net Pension Liability

The net pension liability reported as of September 30, 2016, was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015, total pension liability was determined by an actuarial valuation performed as of that date.

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016

NOTE D - MICHIGAN EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Actuarial Assumptions

The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long-term

Investment rate of return: 7.75%, net of investment and administrative expense including inflation

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

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

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

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses 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 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 2015. The projection of cash flows used to determine the discount rate assumes that 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.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE D - MICHIGAN EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/14	\$ 10,184,201	\$ 7,167,678	\$ 3,016,523
Changes for the Year:			
Service Cost	149,193	-	149,193
Interest	814,957	-	814,957
Changes in benefits	-	-	-
Differences between expected and actual experience	63,113	-	63,113
Change in assumptions	462,006	-	462,006
Contributions: employer	-	474,931	(474,931)
Contributions: employees	-	59,041	(59,041)
Net investment income	-	(106,641)	106,641
Benefit payments, including refunds	(761,051)	(761,051)	-
Administrative expense	-	(15,616)	15,616
Other changes	-	-	-
Net Changes	<u>728,218</u>	<u>(349,336)</u>	<u>1,077,554</u>
Balance at 12/31/15	<u>\$ 10,912,419</u>	<u>\$ 6,818,342</u>	<u>\$ 4,094,077</u>

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 Discount Rate	1% Increase
Total Pension Liability	\$ 12,095,244	\$ 10,912,419	\$ 9,906,347
Fiduciary Net Position	<u>6,818,342</u>	<u>6,818,342</u>	<u>6,818,342</u>
Net Pension Liability	<u>\$ 5,276,902</u>	<u>\$ 4,094,077</u>	<u>\$ 3,088,005</u>

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

For the year ending September 30, 2016, the Road Commission recognized pension expense of \$634,222. At September 30, 2016, the Road Commission reported deferred outflow of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources
Employer contributions to the plan subsequent to the measurement date*	\$ 561,925
Differences in experience	47,336
Differences in Assumptions	346,504
Excess (deficit) in investment returns	<u>628,214</u>
Total	<u>\$ 1,583,979</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 September 30, 2017.

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016

NOTE D - MICHIGAN EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2017	\$ 294,820
2018	294,821
2019	294,821
2020	137,592

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

	<u>Balance</u> <u>10/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/2016</u>
Compensated Absences	<u>\$ 190,821</u>	<u>\$(1) 7,596</u>	<u>\$ -0-</u>	<u>\$ 198,417</u>

(1) The change in compensated absences is shown as a net addition.

CLARE COUNTY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016

NOTE G - VESTED EMPLOYEE BENEFITS

County Road employees, after six months of service, are credited with 8 hours vacation leave per month, and an additional two to seven days based on years of service exceeding four years. Unused vacation leave is carried forward to the next year but leave time in excess of 240 hours is forfeited. Vacation leave for 2016 amounted to \$81,662.

County Road post-1987 employees earn four hours sick leave per month, and pre-1987 employees earn 8 hours a month. All employees are paid annually for accumulated leave in excess of 360 hours. Upon termination, the accumulated sick leave is paid in full. Sick leave for 2016 amounted to \$116,755.

NOTE H - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the twelve months ended September 30, 2016 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Preservation / Structural			
Improvements	\$ 1,002,700	\$ 1,784,308	\$ (781,608)
Maintenance	\$ 1,860,000	\$ 2,066,086	\$ (206,086)
Local Road:			
Preservation / Structural			
Improvements	\$ 1,680,500	\$ 1,850,531	\$ (170,031)
Maintenance	\$ 1,800,000	\$ 2,305,822	\$ (505,822)
State Trunkline Maintenance/ Non-Maintenance	\$ 1,120,000	\$ 1,157,349	\$ (37,349)
Equipment Expense - Net	\$ (1,676,000)	\$ (900,101)	\$ (775,899)

The Road Commission does not use encumbrances for budgetary purposes. During the twelve months ended September 30, 2016, the Road Commissioners made one amendment to the General Operating Fund Budget.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE I - RISK MANAGEMENT

Clare County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Clare Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During the twelve months ended September 30, 2016, and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE J - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal aid revenue of \$910,059 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors paid for and administered by the Michigan Department of Transportation.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE K - OTHER POST EMPLOYMENT HEALTH CARE BENEFITS

Clare County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the road commission's group health insurance plan, which covers both active and retired members. The following are the Governmental Accounting Standards Board Statement #45 required disclosures which have been implemented prospectively by the road commission.

- . Non-Union employees hired prior to February 6, 2013 and union employees hired prior to September 1, 2014 and who retire between the ages of 60 and 65 will receive health insurance comparable to that provided to the current employees for themselves and their spouse until age 65 years. Single employees and married employees must contribute \$100 and \$200 per month, respectively, towards the premiums.

The plan does not issue a separate stand-alone financial statement.

Funding Policy - The Road Commission's annual other post employment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer* (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Road Commission has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Road Commission.

Funding Progress - For the year ended September 30, 2016, the Road Commission has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of September 30, 2016. The calculation 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 to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2016

NOTE K - OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

The Road Commission's computed contribution and actual funding is summarized as follows:

Annual required contribution/Annual OPEB cost (ARC)	\$ 239,293
Interest on beginning of year net OPEB obligation	65,627
Adjustment to annual required contribution	<u>(210,040)</u>
Annual OPEB Costs	94,880
Amounts contributed:	
Payments of current premiums	<u>33,773</u>
Net OPEB obligation	61,107
OPEB obligation - Beginning of year	<u>1,640,674</u>
OPEB obligation - End of year	<u><u>\$ 1,701,781</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended September 30, 2016 and the two preceding fiscal years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/14	\$ 340,088	\$ 67,038	19.71%	\$ 1,582,128
9/30/15	\$ 97,001	\$ 38,455	39.64%	\$ 1,640,674
9/30/16	\$ 94,860	\$ 33,773	35.60%	\$ 1,701,781

As of September 30, 2016, the Actuarial Accrued liability for benefits was \$1,701,781, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,210,826, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 140.5 percent.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE K - OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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 simplifying assumptions were made:

Assumptions About Employees and Members: Based on historical average retirement age of the covered group, active plan members were assumed to retire at various ages between 60 and 65 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published in the 1994 Group Annuity Mortality Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using specific age-based turnover data.

Assumptions About Healthcare Costs: The 2014 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums were based on the 2013 version of the National Health Expenditures (NHE) released in January 2014, Centers for Medicare & Medicaid Services, Office of the Actuary.

Other Assumptions and Methods: The inflation rate was assumed to be 4.0%. Based on the historical and expected returns of the Commission's investments, the investment rate of return was assumed to be 4%. The value of Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE L - FUND BALANCE CLASSIFICATIONS

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which Clare County Road Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-spendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision-making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. The governing body, the budget or finance committee or a delegated municipality official, determines this.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative Fund Balances are always reported as Unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, Clare County Road Commission's highest level of decision-making authority is the County Road Board. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is by vote and approval by the County Road Board.

For assigned fund balance, the Road Commission Manager is authorized to assign amounts to a specific purpose. Such assignments cannot exceed the available fund balance in any particular fund.

For the classification of fund balances, the Clare County Road Commission considers restricted amounts to have been spent when expenditures are incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the road commission considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

REQUIRED SUPPLEMENTAL INFORMATION

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES - BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits	\$ -	\$ -	\$ 28,450	\$ 28,450
Federal Sources				
Surface Transportation Program	-	665,000	910,059	245,059
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	3,857,000	4,226,798	3,945,018	(281,780)
Urban	85,000	137,650	98,193	(39,457)
Snow Removal	2,500	2,510	2,510	-
Critical Bridge	131,500	85,500	81,107	(4,393)
Local Agency Payment	609,850	608,026	608,026	-
Economic Development Fund				
Rural Primary (D)	80,000	3,300	73,726	70,426
Forest Road	70,500	70,500	70,391	(109)
Contributions from Local Units				
Townships	700,000	1,284,000	1,562,806	278,806
Charges for Services				
State Trunkline Maintenance/ Non-Maintenance	1,075,000	1,095,000	1,016,490	(78,510)
Salvage Sales	-	-	4,913	4,913
Interest and Rents	150,000	65,000	26,507	(38,493)
Other Revenue				
Gain (loss) Sale of Equipment	-	-	15,630	15,630
Other	-	-	2,691	2,691
Total Revenue	<u>\$ 6,771,350</u>	<u>\$ 8,253,284</u>	<u>\$ 8,456,517</u>	<u>\$ 203,233</u>

CLARE COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES - BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Preservation - Structural Improvements	\$ 780,400	\$ 1,002,700	\$ 1,784,308	\$ (781,608)
Maintenance	1,101,450	1,860,000	2,066,086	(206,086)
Local Road				
Preservation - Structural Improvements	500,000	1,680,500	1,850,531	(170,031)
Maintenance	2,650,000	1,800,000	2,305,822	(505,822)
State Trunkline Maintenance/ Non-Maintenance	1,070,000	1,120,000	1,157,349	(37,349)
Administrative Expense - Net	1,455,000	1,572,900	389,755	1,183,145
Equipment Expense - Net	(1,525,500)	(1,676,000)	(900,101)	(775,899)
Capital Outlay - Net	<u>740,000</u>	<u>698,365</u>	<u>110,123</u>	<u>588,242</u>
Total Expenditures	<u>\$ 6,771,350</u>	<u>\$ 8,058,465</u>	<u>\$ 8,763,873</u>	<u>\$ (705,408)</u>

CLARE COUNTY ROAD COMMISSION
 SCHEDULE OF CHANGES IN ROAD COMMISSION'S NET PENSION
 LIABILITY (ASSET) AND RELATED RATIOS
 YEAR ENDED SEPTEMBER 30, 2016

	<u>2015</u>
Service cost	\$ 149,193
Interest on total pension liability	814,957
Changes in benefit terms	-
Difference between expected and actual experience	63,113
Changes in assumptions	462,006
Benefit payments including employee refunds	<u>(761,051)</u>
Net change in total pension liability	728,218
Total pension liability - beginning	<u>10,184,201</u>
Total pension liability - ending	<u><u>\$ 10,912,419</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 474,931
Contributions - employee	59,041
Net investment income	(106,641)
Benefit payments, including employee refunds	(761,051)
Administrative expenses	<u>(15,616)</u>
Net change in plan fiduciary net position	(349,336)
Total plan fiduciary net position - beginning	<u>7,167,678</u>
Total plan fiduciary net position - ending	<u><u>\$ 6,818,342</u></u>
Road Commission's net pension liability	<u><u>\$ 4,094,077</u></u>
Plan fiduciary net position as a percentage of the total pension liability	62.48%
Covered employee payroll	\$ 1,403,341
Employer's Net Pension Liability as a percentage of covered payroll	291.74%

Notes to schedule:

the schedule is based on a calendar year measurement date.

CLARE COUNTY ROAD COMMISSION
 SCHEDULE OF ROAD COMMISSION PENSION CONTRIBUTIONS
 YEAR ENDED SEPTEMBER 30, 2016

	Calendar Year				
	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 251,647	\$ 211,074	\$ 197,111	\$ 155,939	\$ 135,024
Contributions in relation to the actuarially determined contribution	474,932	273,819	197,111	169,923	135,024
Contribution excess (deficiency)	<u>\$ 223,285</u>	<u>\$ 62,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,403,341	\$ 1,258,168	\$ 1,291,966	\$ 1,142,655	\$ 1,187,749
Actuarially determined contributions as a percentage of covered-employee payroll	17.93%	16.78%	15.26%	13.65%	11.37%

Notes to Schedule

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 normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	23 years
Asset valuation method	5-year smoothed marked
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%, net of pension plan investment expense including inflation

CLARE COUNTY ROAD COMMISSION
 SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
 FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2016

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
9/30/2009	\$ -	\$ 2,183,349	2,183,349	0%	\$ 1,427,579	153%
9/30/2012	-	2,196,514	2,196,514	0%	1,291,792	170%
9/30/2015	-	1,640,674	1,640,674	0%	1,593,384	103%

SUPPLEMENTAL SCHEDULES

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2016

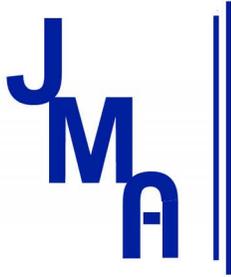
	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues	\$ 4,858,995	\$ 2,533,316	\$ 1,064,206	\$ 8,456,517
Total Expenditures	<u>3,824,267</u>	<u>3,920,294</u>	<u>1,019,312</u>	<u>8,763,873</u>
Excess of Revenues Over (Under) Expenditures	1,034,728	(1,386,978)	44,894	(307,356)
Optional Transfers and Adjustments	(1,034,729)	1,034,729	-	-
Fund Balance - October 1	<u>802,225</u>	<u>1,641,294</u>	<u>1,921,850</u>	<u>4,365,369</u>
Fund Balance - September 30	<u>\$ 802,224</u>	<u>\$ 1,289,045</u>	<u>\$ 1,966,744</u>	<u>\$ 4,058,013</u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2016

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Licenses and Permits	\$ -	\$ -	\$ 28,450	\$ 28,450
Federal Sources				
Surface Transportation Program	910,059	-	-	910,059
State Sources				
Michigan Transportation Fund				
Engineering	5,757	4,243	-	10,000
Allocation	2,271,072	1,673,946	-	3,945,018
Urban	62,722	35,471	-	98,193
Snow Removal	2,510	-	-	2,510
Critical Bridge	81,107	-	-	81,107
Local Agency Payment	608,026	-	-	608,026
Economic Development Fund				
Rural Primary (D)	73,726	-	-	73,726
Forest Road	70,391	-	-	70,391
Contributions from Local Units				
Townships	768,854	793,952	-	1,562,806
Charges for Services				
State Trunkline Maintenance/ Non-Maintenance	-	-	1,016,490	1,016,490
Salvage Sales	-	-	4,913	4,913
Interest and Rents	4,771	10,074	11,662	26,507
Other Revenue				
Gain (Loss) on sale of equipment	-	15,630	-	15,630
Other	-	-	2,691	2,691
Total Revenue	<u>\$ 4,858,995</u>	<u>\$ 2,533,316</u>	<u>\$ 1,064,206</u>	<u>\$ 8,456,517</u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2016

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Primary Road				
Preservation - Structural Improvements	\$ 1,784,308	\$ -	\$ -	\$ 1,784,308
Maintenance	2,066,086	-	-	2,066,086
Local Road				
Preservation - Structural Improvements	-	1,850,531	-	1,850,531
Maintenance	-	2,305,822	-	2,305,822
State Trunkline Maintenance/ Non-Maintenance	-	-	1,157,349	1,157,349
Administrative Expense - Net	187,431	202,324	-	389,755
Equipment Expense - Net	(213,558)	(548,506)	(138,037)	(900,101)
Capital Outlay - Net	-	110,123	-	110,123
Total Expenditures	<u>\$ 3,824,267</u>	<u>\$ 3,920,294</u>	<u>\$ 1,019,312</u>	<u>\$ 8,763,873</u>



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653
Phone: (989) 821-8601 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

January 19, 2017

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

I have audited the component unit financial statements of the governmental activities and major fund of the Clare County Road Commission, a Special Revenue Fund of the County of Clare, Michigan, as of and for the twelve months ended September 30, 2016, and have issued my report thereon dated January 19, 2017. I conducted my 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.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Clare County Road Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clare County Road Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Clare County Road Commission's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Road Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Road Commission has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statement and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Road Commission's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Road Commission to perform this task internally.

A Control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Clare County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. I consider the deficiencies described above to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clare County Road Commission's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.



JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT



James M. Anderson, P.C.

Certified Public Accountant

P.O. Box 255 · Roscommon, MI 48653
Phone: (989) 821-8601 · Fax: (989) 563-3471 · E-mail: janderson@jmacpapc.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH WITH PUBLIC ACT 51 OF 1951 (ACT 51) AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY PUBLIC ACT 298 OF 2012

January 19, 2017

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

Report on Compliance with Act 51

I have audited the compliance of the Clare County Road Commission (the "Road Commission") with the types of compliance requirements described in Act 51 that could have a direct and material effect on the determination of whether the Road Commission expended funds in compliance with Act 51 for the year ended September 30, 2016.

Management's Responsibility

Management is responsible for compliance with Act 51 and related regulations.

Independent Auditor's Responsibility

My responsibility is to express an opinion on whether the Road Commission expended funds in compliance with Act 51 based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Public Act 298 of 2012. Those standards and Public Act 298 of 2012 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the determination of whether the Road Commission expended funds in compliance with Act 51 occurred. An audit includes examining, on a test basis, evidence about the Road Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance with Act 51. However, my audit does not provide a legal determination of the Road Commission's compliance.

Opinion on Act 51 Compliance

In my opinion, the Road Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the determination of whether the Road Commission expended funds in compliance with Act 51 for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the Road Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Road Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the determination of whether the Road commission expended funds in compliance with Act 51, to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with Act 51 and to test and report on internal control over Compliance in accordance with Public Act 298 of 2012, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Road Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of Act 51 on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of Act 51 will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of Act 51 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Public Act 298 of 2012. Accordingly, this report is not suitable for any other purpose.



James M. Anderson, P.C.
Certified Public Accountant



James M. Anderson, P.C.

Certified Public Accountant

P.O. Box 255 · Roscommon, MI 48653
Phone: (989) 821-8601 · Fax: (989) 563-3471 · E-mail: janderson@jmacpapc.com

January 19, 2017

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

I have audited the financial statements of the governmental activity and major fund of the Clare County Road Commission for the year ended September 30, 2016, and have issued my report thereon dated January 19, 2017. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated January 8, 2017, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

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

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

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Clare County Road Commission are described in Note A to the financial statements. I noted no transactions entered into by the Clare County Road Commission during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

Accounting Estimates

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.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Clare County Road Commission financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Clare County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Clare County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

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 governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

COMMENTS AND RECOMMENDATIONS

The following is a summary of my observations and suggestions for improvements I believe should be brought to your attention.

Kiosk System

The foreman's passwords are available to the payroll clerk for the Kiosk system. Considering these are part of the internal control and approval process, I recommend that the passwords should not be known by the payroll clerk.

Inventory

Inventory usage reports are reviewed by the Finance Director after they are input by the clerk. Currently, if they are without exception, nothing is done. I recommend that the usage reports be initialed and dated by the Director to create an audit trail with proof of their review.

The Foremen are requested to review the inventory status reports for road materials at least annually as part of the process of conducting the annual inventory. I recommend this be done on a quarterly basis to allow for more timely adjustments if needed.

Budgets

The Road Commission follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Act of 1978) as prescribed by the State of Michigan.

Public Act 621 of 1978, section 18 (1), as amended, provides that County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended September 30, 2016 the County Road Commission incurred expenditures, which were in excess of the amount appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Preservation / Structural			
Improvements	\$ 1,002,700	\$ 1,784,308	\$ (781,608)
Maintenance	\$ 1,860,000	\$ 2,066,086	\$ (206,086)
Local Road:			
Preservation / Structural			
Improvements	\$ 1,680,500	\$ 1,850,531	\$ (170,031)
Maintenance	\$ 1,800,000	\$ 2,305,822	\$ (505,822)
State Trunkline Maintenance/ Non-Maintenance	\$ 1,120,000	\$ 1,157,349	\$ (37,349)
Equipment Expense - Net	\$ (1,676,000)	\$ (900,101)	\$ (775,899)

Conclusion

I would like to express my appreciation, as well as that of my staff, for the excellent cooperation received while performing the audit. If I can be of any assistance in implementing the above recommendations, please contact me.

This report is intended solely for the use of management, the Board of Commissioners and the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson, P.C.", written in black ink.

James M. Anderson, P.C.
Certified Public Accountant