NOTE 11 - LONG-TERM LIABILITIES - (cont'd):

The annual principal and interest requirements to service the MTF Refunding Bond and the Installment Purchase Agreement as of December 31, 2015 are as follows:

	Principal	Interest	Total
2016	$ 204,000	$ 62,778	$ 266,778
2017	192,500	57,982	250,482
2018	135,000	52,170	187,170
2019	140,000	49,420	189,420
2020	140,000	46,620	186,620
2021-2025	750,000	178,181	928,181
2026-2029	685,000	51,252	736,252
	$ 2,246,500	$ 498,403	$ 2,744,903

Accrued Vacation and Sick -

The accrued vacation and sick represents vested vacation and sick benefits due to Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2015 is $228,252. All amounts vested have been accrued on the government-wide financial statements.

NOTE 12 - EMPLOYEE PENSION PLAN:

Defined Benefit Plan:

Plan Description -

The Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan (the "Plan") created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value or estimated fair value. Road Commission contributions to the Plan are recognized when due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with benefit terms.

The membership at December 31, 2014 was comprised of 39 active participants, 59 retirees and beneficiaries, and 7 other vested inactive participants.

NOTE 12 - EMPLOYEE PENSION PLAN - (cont'd):

Contribution and Funding Policy -

Benefits Provided:

Retirement benefits are calculated based on division as 2.0% to 2.5% of the employee's final three-year (3) average salary times the employee's years of service. Employees are vested after 10 years of service. Normal retirement age is 60. Early retirement with a reduced benefit is at 50 with 25 years of service or at 55 with 15 years of service. Early retirement with an unreduced benefit is at 55 with 25 years of services for Divisions 01 and 13, and 55 with 30 years of service for Division 12. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability benefits are determined in the same manner as retirement benefits but are payable immediately. An employee who leaves service may withdraw his or her contributions, plus accumulated interest. Benefit terms provide for annual cost-of-living adjustments to each employee's retirement benefit subsequent to the employee's retirement date of 2.00% to 2.50%.

Benefit terms, within the parameters established by MERS, are established and amended by authority of the Board of County Road Commissioners. Effective January 1, 2015, non-union employees previously included within Division 01 were put into a separate division, establishing Division 13.

Contributions:

The Road Commission pays the actuarially determined amount, which for the year ended December 31, 2015, was a flat rate of $58,802 per month for Division 01, 11.13% of covered payroll for Division 12, and a flat rate of $7,562 for Division 13. Division 01 was closed on April 1, 2013 to new hires, transfers, and rehires. Effective March 12, 2016, Division 12 was closed to new hires, transfers, and rehires. No employee contributions were required. Effective April 1, 2016, an amendment to the Plan establishes an employee contribution requirement of 1.5% of compensation for Division 01 and 12.

Net Pension Liability:

The net pension liability of the Road Commission has been measured as of December 31, 2015 as determined by an actuarial valuation performed as of December 31, 2014 and is composed of the following:

	Total Pension Liability	Plan's Net Position	Net Pension Liability
Beginning balance	$ 18,292,089	$ 9,028,168	$ 9,263,921
Service cost	177,977	-	177,977
Interest on total pension liability	1,465,734	-	1,465,734
Net investment income	-	(130,146)	130,146
Contributions from employer	-	724,576	(724,576)
Benefit payments	(1,229,200)	(1,229,200)	-
Administrative costs	-	(19,271)	19,271
Other	16,746	-	16,746
Ending balance	$ 18,723,346	$ 8,374,127	$ 10,349,219

Plan fiduciary net position as a percentage of the total pension liability 45%

NOTE 12 - EMPLOYEE PENSION PLAN - (cont'd):

Pension Expense and Deferred Outflows of Resources Related to Pensions -

For the year ended December 31, 2015, the Road Commission recognized pension expense related to the Plan of $1,127,187, including contributions of $724,576 in the General Fund financial statements. At December 31, 2015, the Road Commission reported deferred outflows of resources related to pensions from the following source:

Net difference between projected and actual earnings on pension plan investments	$	682,687

The Road Commission does not have any items that qualify for reporting as deferred inflows of resources.

The amounts of deferred outflows of resources related to pension will be recognized in pension expense as follows:

2016	$	170,672
2017		170,672
2018		170,672
2019		170,671
	$	682,687

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2014, which used updated procedures to roll forward the estimated liability to December 31, 2015. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from December 31, 2003 through December 31, 2008.

Salary increases - 2% in 2015, 3% in 2016, and 4.50 % thereafter

Investment rate of return - 8.25 %

Mortality rates -

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

Discount Rate -

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Road Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

NOTE 12 - EMPLOYEE PENSION PLAN - (cont'd):

Projected Cash Flows -

Based on the assumptions above, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2014 for each major asset class included in the Plan's target asset allocation, as disclosed in the investment footnote of the Plan, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.5 %	5.0 %
Global Fixed Income	20.0	2.2
Real Assets	12.5	4.2
Diversifying Strategies	10.0	6.6
	100.0%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate -

The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.25 percent, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25 percent) or 1-percentage-point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1 % Increase (9.25%)
Net pension liability	$ 12,359,057	$ 10,349,219	$ 8,638,477

NOTE 12 - EMPLOYEE PENSION PLAN - (cont'd):

Defined Contribution Plans:

The Road Commission has established a Defined Contribution Plan through MERS. The Defined Contribution Plan is open to the Engineer/Manager, new hires, rehires, and transfers of current Defined Benefit Plan Division #13 for non-union hired employees hired after October 16, 2015. The Defined Contribution Plan requires the Road Commission to contribute 5% of a participant's compensation. The Road Commission will also contribute a 1:1 match for employee contributions up to 3%. Vesting for the Defined Contribution Plan is as follows: 0% for the first two years of service, and then increases by 25% each service year thereafter. The Defined Contribution Plan fully vests after 6 years of service. Employer contributions related to the Defined Contribution Plan for the year ended December 31, 2015 were $10,583.

Deferred Compensation Plan:

Effective July 18, 2013, the Road Commission now offers a MERS 457 Supplemental Retirement Program Plan, created in accordance with the Internal Revenue Code Section 457, which covers all full time employees and commissioners, as well as the Engineer/Manager. The assets of the deferred compensation plan are held in trust for the exclusive benefit of the participants and their beneficiaries. MERS as the custodian holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Road Commission for purposes of providing direction to MERS from time to time for the investment of funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 12, the Road Commission provides postemployment benefits through a single-employer defined benefit healthcare plan (the "Retiree Health Plan") to eligible employees who retire from the Road Commission. Benefits provided by the plan consist of healthcare, dental, and prescription drug coverage. Benefit provisions are established through negotiations between the Road Commission's management, the Board of Commissioners, and the various collective bargaining units.

The Retiree Health Plan is audited within the scope of the audit of the basic financial statements; separate audited financial statements are not issued.

Funding Policy -

The Road Commission recognizes the cost of providing these benefits on a pay-as-you-go method for current retirees. The Retiree Health Plan requires no member contributions for Road Commission employees. The Road Commission can periodically make contributions to an irrevocable trust to provide advance funds for these benefits which are counted towards the ARC contribution. During the year total contributions were $543,734, including $50,000 to the irrevocable trust fund.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Annual OPEB Cost and Net OPEB Obligation -

The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount calculated in accordance with the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents the level of funding necessary to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) amortized over a period not to exceed thirty years. The Road Commission's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation are as follows:

Annual required contribution	$ 1,060,726
Interest on net OPEB obligation	128,745
Adjustment to annual required contribution	(119,642)
Annual OPEB cost (expense)	1,069,829
Contributions made	(543,734)
Increase in net OPEB obligation	526,095
Net OPEB obligation - beginning of year	1,839,214
Net OPEB obligation - end of year	$ 2,365,309

Schedule of Employer Contributions -

Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
December 31, 2013	$ 724,100	67.58 %	$ 1,390,578
December 31, 2014	1,067,607	57.98	1,832,214
December 31, 2015	1,069,829	49.18	2,365,309

Schedule of Funding Progress -

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
2008	$ -	$ 8,259,076	$ 8,259,076	0 %	$ 1,876,594	440 %
2011	51,667	7,968,733	7,917,066	0.65	1,688,622	469
2014	265,967	14,257,885	13,991,918	1.87	1,835,645	762

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Retirement Age of Active Employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55 or 60, depending on the applicable collective bargaining units benefit provisions.

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The United States Life Tables for Males and for Females were obtained from the Center for Disease Control (www.cdc.gov). The most recent data are the life tables for males and females, 2010 version (Tables 2 and 3 from the National Vital Statistics Report, Vol. 63, No. 7 dated November 6, 2014).

Turnover - Nongroup-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employment until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare Cost Trend Rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. The rate was estimated at 5.6 percent for 2010, increasing each year to 6.2 percent in 2021 and for years thereafter.

Health Insurance Premiums - 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Inflation Rate - The expected long-term inflation assumption of 2.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll Growth Rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on historical and expected returns of the short-term investment portfolio, a discount rate of 5 percent and 7 percent investment rate was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open period with a remaining amortization period of 30 years.

NOTE 14 - ADVANCES:

An advance of $153,008 at December 31, 2015, was provided by the State for working capital under a road maintenance contract the Road Commission has with MDOT. The advance is adjusted annually by the State and must be repaid if the maintenance contract is cancelled.

NOTE 15 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

As part of its trunkline maintenance agreement with the State, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 16 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the "Pool") established pursuant to the laws of the State, which authorizes 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 for Michigan County Road Commissions 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 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 formation 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.