

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

ANNUAL FINANCIAL REPORT
With Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2015



BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

TABLE OF CONTENTS

DECEMBER 31, 2015

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements -	
Balance Sheet/Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	8
Notes to Financial Statements	9
Required Supplementary Information -	
Budgetary Comparison Information: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual - General Fund	28
Defined Benefit Pension Schedules: Schedule of Proportionate Share of the Net Pension Asset Last Ten Years (Plan Year End)	29
Schedule of Road Commission Contributions Last Ten Fiscal Years	30
Supplementary Information -	
Detail Schedule of Revenues	31
Detail Schedule of Expenditures	32
Schedule of Revenues, Expenditures, and Changes in Fund Balances - By Fund Balance Sub-Accounts - General Fund	33

INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Bay County Road Commission
Kawkawlin, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Bay County Road Commission, a component unit of Bay County, Michigan as of and for the year ended December 31, 2015, 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Road Commission'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 Road Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Bay County Road Commission, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

As discussed in Note 15 to the financial statements, the Road Commission implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in the current year. The statements required the Road Commission to record their net pension asset in the government-wide financial statements and enhanced financial reporting of the Road Commission's net pension asset and the related note disclosures of the Plan. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bay County Road Commission's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2016 on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control over financial reporting and compliance.


Certified Public Accountants

June 14, 2016

BAY COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Bay County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Bay County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) General Fund financial statements and (3) notes to the financial statements. Required supplementary and other supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Road Commission assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

General Fund Financial Statements

Unlike the government-wide financial statements, General Fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of the General Fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for General Fund financial statements with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions.

Both the General Fund balance sheet and the General Fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between General Fund and the government-wide financial statements.

The Road Commission adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 9-27 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$93,450,651 at the end of the year.

The net position is separated into three major components, net investment in capital assets of \$88,384,553, restricted of \$7,175,781, and an unrestricted net position deficit of \$(1,986,180). The net investment in capital assets of the Road Commission reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure) net of any related debt used to acquire these amounts. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net position reflects the Road Commission's proportionate share of the net pension asset in the Bay County Employees' Retirement System. These assets are held in trust and are not considered available to the Road Commission other than for defined benefit pension obligations of employees.

The table below shows a comparison of the Statement of Net Position as of December 31, 2015 and 2014 in a condensed format.

Statement of Net Position

	2015	Restated 2014
Other assets	\$ 14,356,209	\$ 12,803,397
Capital assets	88,442,076	87,132,429
Total Assets	<u>102,798,285</u>	<u>99,935,826</u>
Deferred Outflows of Resources	<u>991,441</u>	<u>663,989</u>
Other liabilities	661,484	736,488
Noncurrent liabilities	<u>9,311,839</u>	<u>9,348,194</u>
Total Liabilities	<u>9,973,323</u>	<u>10,084,682</u>
Deferred Inflows of Resources	<u>242,249</u>	<u>-</u>
Net Position		
Net investment in capital assets	88,384,553	87,018,974
Restricted	7,175,781	7,521,815
Unrestricted (deficit)	(<u>1,986,180</u>)	(<u>4,025,656</u>)
Total Net Position	<u>\$ 93,574,154</u>	<u>\$ 90,515,133</u>

The 2014 balances above have been restated due to the implementation of GASB Statement Nos. 68 and 71, as described in Note 15 to the financial statements, and certain corrections to capital assets, as described in Note 16 to the financial statements.

Statement of Activities

The table below compares the revenues and expenses for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Revenues		
Federal sources	\$ 2,137,486	\$ 1,256,687
State sources	9,248,182	9,041,952
Local sources	2,105,451	2,486,322
Charges for services	1,620,425	1,631,919
Interest and other	<u>124,013</u>	<u>190,129</u>
Total Revenues	<u>15,235,557</u>	<u>14,607,009</u>
Expenses		
Maintenance	6,237,758	8,120,533
Administrative	1,023,038	1,053,863
Equipment (Net)	(548,005)	(570,981)
Depreciation	5,121,612	3,668,923
Debt Service and other	<u>342,133</u>	<u>309,586</u>
Total Expenses	<u>12,176,536</u>	<u>12,581,824</u>
Change in Net Position	3,059,021	2,025,085
Net Position - Beginning of Year, as restated	<u>90,515,133</u>	<u>87,202,719</u>
Net Position - End of Year	<u>\$ 93,574,154</u>	<u>\$ 89,227,804</u>

As shown in the preceding schedule comparing 2015 and 2014 Statement of Activities amounts, total revenue increased \$628,548 or about 4.3%.

Of the state source revenue, \$7,934,495 and \$7,696,302 was recorded in 2015 and 2014, respectively, from Michigan Transportation Funds, which represents approximately 52.1% of the total revenue received in 2015 and 52.7% of the total revenue received in 2014.

Total expenses decreased by 3.2% from 2014 to 2015.

General Fund Financial Analysis

As noted earlier, the focus of the General Fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$5,603,459, an increase of \$801,716 from the prior year. Approximately 61.8% or \$3,461,499 of the fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, assigned, or committed to indicate that the amount is not available for new spending due to \$922,760 of prepaid items and inventory as nonspendable, \$162,300 assigned for 2016 operations, and \$1,056,900 committed for healthcare premiums.

BUDGETARY HIGHLIGHTS

The difference between the original budget and the final budgeted expenditures was a decrease of \$923,597 or approximately 5.9% of the original budget due mainly to an amendment made to the primary preservation structural improvements activity budget category.

The positive variance between the final budget and actual expenditures was \$482,962 or approximately 3.3% of the final budgeted expenditures. Actual revenues were greater than the final budgeted revenues by \$328,685 or approximately 2.2% of the final budgeted revenues.

Details of the original budget, final budget and actual amounts may be found on page 28 of the report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of year end, the Road Commission had \$88,442,076 invested in capital assets (net of accumulated depreciation), representing an increase of \$1,309,647 from the 2014 balance. Major capital asset additions included approximately \$5.8 million of road and bridge construction, resurfacing, and widening.

Additional information on the Road Commission's capital assets may be found in Note 7 to the financial statements.

Long-term Liabilities - At the end of the current year, the Road Commission had a capital lease payable outstanding of \$57,523 for a street sweeper. The Road Commission also has other recorded liabilities of \$841,936 for accrued sick and vacation. Additional information on the Road Commission's long-term liabilities may be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Bay County Road Commission's (BCRC) primary revenue stream, Michigan's Motor Transportation Fund (MTF), has remained virtually the same with very little or minimal increases over the past several years. The continued long-term shortfall in overall State funding, especially in transportation and local government revenue sharing, has taken a toll on Bay County's Primary and Local road and bridge system. Specifically, severely affecting the BCRC's ability to maintain and/or improve the road and bridge facilities under its jurisdiction. Based on State projections, no significant increase in MTF revenue is anticipated in 2016. The BCRC did receive additional installments of State transportation funding totaling close to \$971,000 in 2015. This funding was part of a State-wide program to bolster transportation infrastructure improvements. Although nowhere near enough, it was a welcomed addition. However, the successful passage of a State-wide referendum to increase funding for transportation infrastructure will increase the BCRC's MTF by a projected \$1.5 million per year starting January 1, 2017. This legislation will permanently add MTF dollars to the BCRC's annual budget and enable us to implement more road and bridge improvement projects going forward. The BCRC's State Trunkline Maintenance budget for fiscal year 2016 expects to see an increase in funding by approximately \$130,000 over 2015 totals.

For 2016, the BCRC adjusted the dollars allocated for routine maintenance for the Primary and Local road system to align and represent the actual dollars received through the MTF formula for each of Bay County's 14 Townships. By doing so, budget line item totals for Local road maintenance decreased and Primary road routine maintenance budget line items increased for 2016. This will allow the BCRC to better monitor where MTF maintenance dollars are being spent and on which road system. The Road Commission is expecting a continued increase in local road/structural improvements in 2016, due to the passage of several Township road millage's in 2014. As for the Road Commission's Primary road and bridge system, there are several large projects utilizing Federal-Aid fund match dollars to be completed in 2016. Of the overall construction costs estimated at \$4.99 million, \$1.69 million will be funded through Rural Task Force 7B, \$1.10 million will come from the Local Bridge Program, with the balance coming from the BCRC's MTF and other smaller grants. Utilizing these grant and funding programs, we project a decrease in fund balance of \$162,300 for 2016, but project the BCRC's overall fund balance for 2016 to remain strong at \$5,058,751.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Bay County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Bay County Road Commission, 2600 E. Beaver Road, Kawkawlin, Michigan 48631.

BASIC FINANCIAL STATEMENTS

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

BALANCE SHEET / STATEMENT OF NET POSITION
DECEMBER 31, 2015

	General Fund	Adjustments (Note 2)	Governmental Activities
Assets:			
Cash	\$ 613,151	\$ -	\$ 613,151
Investments	2,505,228	-	2,505,228
Due from other governmental units -			
State	2,300,637	-	2,300,637
Local	483,278	-	483,278
Accounts and interest receivable	130,669	-	130,669
Prepaid items	149,757	224,705	374,462
Inventory	773,003	-	773,003
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	35,745,187	35,745,187
Assets being depreciated	-	52,696,889	52,696,889
Net pension asset	-	7,175,781	7,175,781
Total Assets	6,955,723	95,842,562	102,798,285
Deferred Outflows of Resources:			
Related to pension plan	-	991,441	991,441
Total Assets and Deferred Outflows of Resources	\$ 6,955,723		
Liabilities:			
Accounts payable	\$ 353,483	-	353,483
Accrued liabilities	47,335	-	47,335
Advances	260,666	-	260,666
Noncurrent liabilities -			
Due within one year	-	438,779	438,779
Due in more than one year	-	460,680	460,680
Net OPEB Obligation	-	8,412,380	8,412,380
Total Liabilities	661,484	9,311,839	9,973,323
Deferred Inflows of Resources:			
Unavailable revenue	690,780	(690,780)	-
Related to pension plan	-	242,249	242,249
	690,780	(448,531)	242,249
Fund Balance:			
Nonspendable- prepaids/inventory	922,760	(922,760)	
Committed - Healthcare	1,056,900	(1,056,900)	-
Assigned - 2016 Operations	162,300	(162,300)	-
Unassigned	3,461,499	(3,461,499)	-
Total Fund Balance	5,603,459	(5,603,459)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 6,955,723		
Net Position:			
Net investment in capital assets		88,384,553	88,384,553
Restricted for pension benefits		7,175,781	7,175,781
Unrestricted (deficit)		(1,986,180)	(1,986,180)
Total Net Position		\$ 93,574,154	\$ 93,574,154

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

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE/
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Adjustments (Note 2)	Governmental Activities
Revenues:			
Permits	\$ 57,866	\$ -	\$ 57,866
Intergovernmental -			
Federal sources	2,134,645	2,841	2,137,486
State sources	8,967,583	280,599	9,248,182
Local sources	2,105,451	-	2,105,451
Charges for services	1,620,425	-	1,620,425
Interest and rents	(6,543)	-	(6,543)
Other	72,690	-	72,690
Total Revenues	14,952,117	283,440	15,235,557
Expenditures/Expenses:			
Current -			
Primary construction/capacity improvements	2,206,860	(2,206,860)	-
Primary preservation - structural improvements	2,226,856	(2,226,856)	-
Local preservation - structural improvements	1,620,173	(1,620,173)	-
Primary maintenance	2,270,056	(189,299)	2,080,757
Local maintenance	2,737,535	(229,591)	2,507,944
State maintenance	1,649,057	-	1,649,057
Administrative	1,246,043	(223,005)	1,023,038
Equipment operations	2,127,006	(496,393)	1,630,613
Less: equipment rental charged to other activities	(2,178,618)	-	(2,178,618)
Depreciation	-	5,121,612	5,121,612
Other - Services	338,903	-	338,903
Capital Outlay	377,370	(377,370)	-
Less: depreciation credit	(530,002)	530,002	-
Debt Service	59,162	(55,932)	3,230
Total Expenditures/Expenses	14,150,401	(1,973,865)	12,176,536
Change in Fund Balance/Net Position	801,716	2,257,305	3,059,021
Fund Balance/Net Position at January 1, 2015 as restated	4,801,743	85,713,390	90,515,133
Fund Balance/Net Position at December 31, 2015	\$ 5,603,459	\$ 87,970,695	\$ 93,574,154

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

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Bay County Road Commission (the "Road Commission"), a component unit of the County of Bay, Michigan, conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, including the following accounting policies specific to road commissions: allocation of depreciation/depletion and equipment rental, the recording of handling and overhead credits and the recording of equipment retirements with the related gain or loss on disposal of equipment. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations -

The Bay County Road is a component unit of the County of Bay, Michigan, and is used to control the expenditure of revenues from the State of Michigan (the "State") distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of Transportation (MDOT) for work performed within the County on State trunklines and contributions from other local units of government (townships) for work performed by the Road Commission. The General Fund is a governmental fund and the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to fourteen (14) townships in Bay County and maintains over 1,400 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation -

The government-wide financial statements (i.e., statement of net position and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The General Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized when 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 year. The major revenue sources that are susceptible to accrual are motor vehicle highway funds and township contributions. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

When an expense is incurred for the purpose for which both restricted and unrestricted net position or fund balance is available, the Road Commission's policy is to first apply restricted resources.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Balance or Net Position -

Cash - The Road Commission's cash is cash on hand and demand deposits.

Investments - The Road Commission's investments are maintained by the County Treasurer and are part of the pooling of investments by Bay County.

Accounts Receivable - Accounts receivable consist of billable accident claims for damage to Road Commission property and infrastructure, permits, retiree insurance copays, various billing services, and other miscellaneous receivables.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of average cost or market.

Prepaid Items - Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items in the General Fund and governmental activities financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide (statement of net position) financial statements. Capital assets for land, buildings and improvements, and equipment are defined by the Road Commission as assets with an initial, individual cost of \$2,000 or more and an estimated useful life in excess of one year. This dollar value may be superseded for equipment that appears on the State Equipment List (Schedule C), whereby the piece of equipment must be reported as a capital asset without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital asset acquisitions are recorded in the General Fund financial statements (statement of revenues, expenditures and changes in fund balance) as capital outlay expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5-8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals, which are required to be reported despite the date of purchase. The Uniform Accounting Procedures Manual for Michigan County Road Commissions (the "Manual") provides for removing roads from the capital assets at the time the group of individually recorded roads has been fully depreciated.

The Manual also provides for recording depreciation and depletion in the General Fund as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account, that is offset against capital outlay. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity (fund balance) of the General Fund financial statements.

The Manual also provides for the net book value of road equipment that is retired to be reported as an equipment retirement in an equipment retirement credit account that is offset against capital outlay. The net of any proceeds received for the retirement (sale, abandonment, or trade-in) is reported as a gain or loss on disposal of equipment. As a result, fund balance of the General Fund is not affected.

Advances From The State of Michigan - The State advances funds on a maintenance agreement it has with the Road Commission for specified maintenance, which the Road Commission will perform during the year and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State.

Accrued Vacation and Sick Pay - In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net position).

Other Postemployment Benefits (OPEB) - The Road Commission offers retiree healthcare benefits to employees. The Road Commission receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the General Fund, OPEB cost recognition occurs as contributions are made. For the government-wide statements, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest, and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position and balance sheet 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 (expenses/expenditures) until then. The Road Commission has the following items that qualify for reporting in this category: Pension payments made subsequent to the measurement date and the net difference between expected and actual experience related to the Road Commission's pension, which are reported on the government-wide statement of net position. The contributions made subsequent to the measurement date are recognized in the following plan year and the other pension related deferred outflows of resources of the net difference between expected and actual experience is amortized over the expected remaining service lives of the participants.

In addition to liabilities, the statement of net position and 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) so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has two items that qualify for reporting in this category. The Road Commission had certain receivables deferred due to reimbursements that were not collected within the availability period, which are reported on the general fund balance sheet (modified accrual basis of accounting). These amounts are deferred and recognized as an inflow of resources in the period the receivables are collected. In addition, pension related net difference between expected and actual plan investment earnings are all reported on the government-wide statement of net position and are amortized over five (5) years.

Equipment Rental - The Manual provides that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The credit of this allocation is an offset to equipment expenditures/expenses. As a result, the available fund equity is not affected.

Handling and Overhead Credits - The Manual provides that the charging of handling and overhead based on a calculation related to a specific project's cost, particularly the State Trunkline agreements, be reported as an expenditure/expense under the appropriate activity and a credit to a handling or overhead credit account that is offset against the administrative activity. As a result, the available fund equity is not affected.

Long-term Obligations - In the government-wide financial statements (statement of net position), long-term debt and other long-term obligations are reported as liabilities.

Fund Balance - In the financial statements, the General Fund reported a fund balance in one or more of the following classifications:

Nonspendable fund balance - the portion of fund balance that cannot be spent because of its form or because it must be maintained intact.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Restricted fund balance - the portion of fund balance that has limitations imposed on use by external sources.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action via board resolution (e.g., to establish, modify or rescind), of the highest level of decision-making authority (Board of County Road Commissioners).

Assigned fund balance - the portion of fund balance that reflects the Road Commission's intended use of resources. Such intent currently must be determined by the Engineer/Manager as provided via resolution of Board of County Road Commissioners.

Unassigned fund balance - the portion of a fund balance in the General Fund that cannot be classified into one of the four categories above.

When different classifications of fund balance are present, it is the Road Commission's policy that expenditures are to be spent from restricted fund balance first, if appropriate, followed in order by committed fund balance, then assigned and lastly unassigned.

Estimates - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements - Recently the GASB issued the following statements that may have an impact on the Road Commission's financial statements when adopted. The Road Commission is currently evaluating the implications of these pronouncements.

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015 and will become effective for the Road Commission's December 31, 2016 fiscal year. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on the Road Commission's financial position.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015 and will become effective for the Road Commission's December 31, 2018 fiscal year. The statement requires governments providing defined benefit OPEB plans to report the net OPEB liability in their statement of net position. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets accumulated in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The plan will also improve the comparability and consistency of how governments calculate the OPEB liabilities and expenses.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND GENERAL FUND FINANCIAL STATEMENTS:

- A. Explanation of differences between the Balance Sheet and the Statement of Net Position (Page 7).

Fund Balance - General Fund	\$	5,603,459
Prepaid expenses not reported in the governmental fund statements		224,705
Capital assets used in governmental activities are not financial resources and therefore are not reported in the General Fund financials		
Add - capital assets		149,332,311
Deduct - accumulated depreciation	(60,890,235)
Net pension asset		7,175,781
Certain changes in pension plan that are reported as deferred outflows of resources in the statement of net position		991,441
Long-term liabilities that are not due in the current period therefore not reported in the General Fund statements		
Accrued vacation and sick	(841,936)
Net OPEB obligation	(8,412,380)
Capital lease obligation	(57,523)
Deferred inflows of resources in General Fund due to not meeting availability criteria under modified accrual are susceptible to full accrual on the government-wide statements		690,780
Certain changes in pension plan that are reported as deferred inflows of resources in the statement of net position	(<u>242,249)</u>
Net Position - Governmental Activities	\$	<u>93,574,154</u>

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND GENERAL FUND FINANCIAL STATEMENTS - (cont'd):

- B.** Explanation of differences between the Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities (Page 8).

Change in Fund Balance - General Fund	\$	801,716
<p>The General Fund reports capital outlay as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense</p>		
Add – capital outlay and infrastructure		6,431,259
Deduct – depreciation	(5,121,612)
Prepaid expenses adjustment not reported in the governmental fund statements		224,705
Revenues are deferred in the General Fund because they do not provide current financial resources that are reported in the government-wide statement of activities		283,440
<p>The issuance of long-term debt provides current financial resources to the General Fund, while the repayment of the principal consumes the current financial resources to the General Fund. Neither transaction, however, has any effect on net position.</p>		
Principal payments on capital lease		55,932
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the General Fund -</p>		
Decrease in accrued sick and vacation		89,395
Increase in other postemployment benefits	(108,972)
Increase in net pension assets		317,955
Change in deferred outflows of resources as a result of changes in expected and actual experience and contributions made subsequent to the measurement date		327,452
Change in deferred inflows of resources as a result of changes in projected and actual earnings	(242,249)
Change in Net Position - Statement of Activities	\$	<u>3,059,021</u>

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Compliance -

The Engineer-Manager of the Road Commission prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Fund is adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's Resolution. The budget is approved at the activity level by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. The following expenditures at December 31, 2015 were in excess of appropriations:

	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Current -			
Primary preservation - structural improvements	\$ 1,487,214	\$ 2,226,856	\$ 739,642
State trunkline - nonmaintenance	1,765	2,059	294
Other services	332,901	338,903	6,002
Capital outlay - net			

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2015, the carrying amount of deposits and investments is as follows:

Cash on Hand - Petty Cash	\$ 300
Deposits with Financial Institutions -	
Imprest Checking	181,689
Checking maintained by County Treasurer	431,162
	612,851
Investments -	
Investments maintained by County Treasurer	2,505,228
	\$ 3,118,379

The Manual provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Bay County Treasurer's Office, and in order to make disbursements, the Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of surplus cash is performed by the County Treasurer.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize road commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

The Road Commission's deposits consist of demand accounts. At December 31, 2015, the carrying amount of the Road Commission's deposits is \$612,851 and the bank balance is \$708,111, of which \$250,000 is insured by depository insurance and \$458,111 is uninsured and uncollateralized.

Investments -

The County Treasurer on behalf of the Road Commission also invests into certificates of deposit, governmental obligations, commercial paper and money market funds through pooled investments. Information regarding these investments and risk associated with these investments may be obtained from the Bay County Financial Report for the year ended December 31, 2015.

Custodial Credit Risk - Investments - is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments that are in possession of another party. The Road Commission's investment policy does not address this risk.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the Road Commission's investment in a single issuer. The Road Commission's formal investment policy attempts to minimize risk by diversifying its investments by maturity dates, individual financial institutions, and/or security type, so that potential loss on individual securities does not exceed the income generated from the remainder of the portfolio. However, the Road Commission's policy does not restrict the amount that can be invested with any one issuer, financial institution or type of investment.

Interest Rate Risk - Investments - is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not specifically address interest rate risk.

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other government units as of December 31, 2015 consists of the following:

State -		
Michigan Transportation Funds	\$	1,238,823
Trunkline Maintenance		123,543
PA 84		<u>938,271</u>
	\$	<u><u>2,300,637</u></u>
Local -		
Other	\$	<u>483,278</u>

NOTE 6 - INVENTORIES:

The inventory balance of \$773,003 at December 31, 2015 consisted of \$534,996 of road materials and \$238,007 of equipment parts and materials.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Restated Balance January 1, 2015	Additions	Deletions/ Removals	Balance December 31, 2015
Capital Assets, not being depreciated -				
Land	\$ 392,502	\$ -	\$ -	\$ 392,502
Land Improvements	34,807,200	195,824	-	35,003,024
Right-of-Ways	<u>349,661</u>	<u>-</u>	<u>-</u>	<u>349,661</u>
Total Capital Assets, not being depreciated	<u>35,549,363</u>	<u>195,824</u>	<u>-</u>	<u>35,745,187</u>
Capital Assets, being depreciated -				
Buildings and Improvements	2,867,507	-	-	2,867,507
Road Equipment	10,287,088	353,226	74,093	10,566,221
Shop Equipment	149,533	-	-	149,533
Office Equipment	274,287	24,144	-	298,431
Engineering Equipment	227,349	-	-	227,349
Yard and Storage	1,334,201	-	-	1,334,201
Infrastructure -				
Roads	75,223,976	5,449,866	2,595,378	78,078,464
Bridges	18,956,669	408,199	-	19,364,868
Traffic Signals	<u>700,550</u>	<u>-</u>	<u>-</u>	<u>700,550</u>
	<u>110,021,160</u>	<u>6,235,435</u>	<u>2,669,471</u>	<u>113,587,124</u>
Less - accumulated depreciation for -				
Buildings and Improvements	1,977,387	164,839	-	2,142,226
Road Equipment	9,770,691	217,468	74,093	9,914,066
Shop Equipment	125,612	9,696	-	135,308
Office Equipment	115,538	62,608	-	178,146
Engineering Equipment	165,118	15,481	-	180,599
Yard and Storage	1,111,042	59,910	-	1,170,952
Infrastructure -				
Roads	35,198,021	4,052,812	2,595,378	36,655,455
Bridges	9,587,998	503,069	-	10,091,067
Traffic Signals	<u>386,687</u>	<u>35,729</u>	<u>-</u>	<u>422,416</u>
	<u>58,438,094</u>	<u>5,121,612</u>	<u>2,669,471</u>	<u>60,890,235</u>
Total Capital Assets, being depreciated, net	<u>51,583,066</u>	<u>1,113,823</u>	<u>-</u>	<u>52,696,889</u>
Governmental Activity Capital Assets, net	<u>\$ 87,132,429</u>	<u>\$ 1,309,647</u>	<u>\$ -</u>	<u>\$ 88,442,076</u>

Total depreciation for the year ended December 31, 2015 was \$5,121,612.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8 - FEDERAL AWARDS:

It is required by MDOT that road commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force 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 MDOT.

During the year ended December 31, 2015, the Road Commission had less than \$750,000 of force account expenditures applicable to federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

NOTE 9 - ADVANCES:

Advances of \$260,666 at December 31, 2015, represent money advanced by the State under the maintenance contract the Road Commission has with the State for working capital and for equipment purchases and a Township advance. Both State advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance by use:

State advances -		
Trunkline maintenance	\$	157,510
Equipment		102,662
Township advance		<u>494</u>
	<u>\$</u>	<u>260,666</u>

NOTE 10 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2015:

	Balance January 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2015</u>	Due Within <u>One Year</u>
Accrued sick & vacation	\$ 931,331	\$ 438,666	\$ 528,061	\$ 841,936	\$ 381,256
Street sweeper capital lease	<u>113,455</u>	<u>-</u>	<u>55,932</u>	<u>57,523</u>	<u>57,523</u>
	<u>\$ 1,044,786</u>	<u>\$ 438,666</u>	<u>\$ 583,993</u>	<u>\$ 899,459</u>	<u>\$ 438,779</u>

Accrued Sick and Vacation -

Employees are granted sick leave and vacation in varying amounts based on the Road Commission's administrative policy and contracts with union employees. In accordance with these policies and contracts, individual employees have a vested right upon termination of employment to receive payment of unused sick and vacation. The dollar amount of these vested rights, which has been accrued on the government-wide financial statements, amounted to \$650,333 for sick leave and \$191,603 for vacation at December 31, 2015.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10 - LONG-TERM LIABILITIES - (cont'd):

Street Sweeper Capital Lease -

The Road Commission entered into a lease purchase agreement for a street sweeper in the amount of \$235,000 with an \$8,000 trade-in allowance. Payment is due in annual installments of \$59,161, including interest of 2.81% through March 11, 2016. The asset has a net book value of \$66,745 at December 31, 2015.

The annual requirements for the capital lease are as follows:

2016		\$ 59,161
Less: Amount representing interest		(<u>1,638</u>)
Principal		<u>\$ 57,523</u>

NOTE 11 - EMPLOYEE PENSION PLAN:

Defined Benefit Plan:

Plan Description -

The Road Commission participates in the Bay County Employees' Retirement System ("BCERS"); an agent multiple-employer defined benefit contributory pension plan (the "Plan") that covers all employees. BCERS was adopted by Bay County (the "County") pursuant to Michigan Compiled Laws, Section 46.12a. The Road Commission shares its experience risks and benefits with the County and as such, it is reported as a cost-sharing, multiple-employer plan. Benefit provisions are established and may be amended by the Board of Trustees of BCERS as permitted by County Ordinances. BCERS issues a publicly available financial report that includes financial statements and required supplementary information and may be obtained by writing Bay County at 515 Center Avenue, Suite 701, Bay City, Michigan, 48708.

For the purpose of measuring the net pension asset, 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. Short-term investments are reported at cost, which approximates fair value. Employee contributions are recognized in the period in which the contributions are due. Road Commission contributions to the Plan are recognized when due pursuant to legal requirements. Benefit payments and refunds are recognized as expense when due and payable in accordance with the terms of the Plan.

The membership at December 31, 2014 was comprised of 59 active participants, 95 retirees and beneficiaries, and 1 other vested inactive participant.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 11 - EMPLOYEE PENSION PLAN - (cont'd):

Benefits Provided -

Retirement benefits are calculated as 2.50% of the employee's highest five-year salary for all employee groups hired before January 1, 2011 and 2.25% for all employee groups hired after January 1, 2011, except supervisory and administration. Supervisory and administration employees use a 2.50% multiplier if hired before March 31, 2011 and a 2.25% multiplier if hired after March 31, 2011 and the employee's highest five-year salary to calculate the retirement benefit. The maximum benefit is 75% of final average earnings. Normal retirement age is 60 with 8 years of service for employees hired before January 1, 2007, 60 with 10 years of service for employees hired after January 1, 2007, or any age with 30 years of service. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. An employee who leaves service may withdraw his or her contributions, plus accumulated interest.

Benefit terms, within the parameters established by BCERS are established and amended by authority of Board of Commissioners of the Road Commission and ratification by the collective bargaining units.

Contributions -

Participants of the Plan contribute between 4.0-5.0% of compensation with the remaining amount contributed by the Road Commission based on actuarially determined amounts. The Road Commission pays the actuarially determined amount, which for the year ended December 31, 2015 was 19.14% of covered payroll.

Net Pension Asset -

The net pension asset of the Road Commission has been measured as of December 31, 2014. The Bay County Road Commission's net pension asset is 25.795% of the Plan's asset and is composed of the following:

Plan fiduciary net position	\$ 22,375,601
Total pension liability	<u>15,199,820</u>
Net pension asset	<u>\$ 7,175,781</u>
Plan fiduciary net position as a percentage of the total pension liability	147.21 %

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 11 - EMPLOYEE PENSION PLAN - (cont'd):

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

For the year ended December 31, 2015, the Road Commission recognized pension expense of \$159,629 in the government-wide financial statements. At December 31, 2015, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	\$ -	\$ 242,249
Contributions made subsequent to the measurement date	562,787	-
Difference between expected and actual experience	428,654	-
	\$ 991,441	\$ 242,249

The amounts of deferred outflows and inflows of resources related to pension, excluding contributions to the plan subsequent to the measurement date which will be recognized by the Plan in the next measurement period, will be recognized in pension expense as follows:

2016	\$ 39,185
2017	39,185
2018	39,185
2019	39,185
2020	29,665
	\$ 186,405

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2014. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from January 1, 2010 through December 31, 2014.

Salary increases - 4.25% - 9.50% including inflation of 3.5%

Investment rate of return - 7.5%

Inflation assumption - 3%

Mortality rates - RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Population Scale BB (multiplied by 75% for pre-retirement mortality and 110% for post-retirement mortality for both males and females).

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 11 - EMPLOYEE PENSION PLAN - (cont'd):

Discount Rate - The discount rate used to measure the total pension liability was 7.50 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.

Projected Cash Flows - Based on the assumptions above, Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members prior to 2114. After that time, fiduciary net position was projected to be insufficient to make all projected future benefit payments of current Plan members. Therefore, the tax-exempt municipal bond rate from Federal Reserve statistical release (H.15) of 3.56 percent as of December 31, 2014 was applied to all subsequent projected benefit payments to determine the discount rate.

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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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 BCERS' December 31, 2014 financial statements, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	50 %	6.11 %
International equity	20	6.48
U.S. Fixed Income	23	1.15
Real Estate	7	4.45

Sensitivity of the Net Pension Asset to Changes in the Discount Rate - The following presents the net pension asset of the Road Commission, calculated using the discount rate of 7.50 percent, as well as what the Road Commission's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net pension asset	<u>\$ 607,680</u>	<u>\$ 7,175,781</u>	<u>\$ 12,742,878</u>

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 11, the Bay County Road Commission participates in the Bay County Retiree Health Care Plan (the "Plan"). The Plan is a single employer defined benefit public retiree healthcare plan. The Plan provides postemployment benefits consisting of health, dental, vision, life, and prescription drug coverage, to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service, age 60 with 10 years of service (after 2007 for new hires), or with 30 years of service regardless of age. Effective January 1, 2016, employees hired after this date are not eligible for health insurance benefits at retirement.

The County issues a publicly available Annual Financial Report that includes financial statements for the Plan. That report may be obtained from Bay County by writing to the Bay County Employees' Retirement System, Bay County Building, 515 Center Avenue – Third Floor, Bay City, MI 48708-6128.

Funding Policy -

The Road Commission funds the benefits on a pay-as-you-go method for current retirees. The Plan requires no member contributions for Road Commission employees. During the year ended December 31, 2015, employer contributions of \$1,880,429 were made by the Road Commission.

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 actuarially determined in accordance with the parameters of GASB Statement 45. 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 of 18 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	\$ 2,258,071
Interest on net OPEB obligation	498,204
Adjustment to annual required contribution	(766,874)
Annual OPEB cost (expense)	1,989,401
Contributions made	(1,880,429)
Increase in net OPEB obligation	108,972
NET OPEB obligation – beginning of year	<u>8,303,408</u>
NET OPEB obligation – end of year	<u>\$ 8,412,380</u>

Schedule of Employer Contributions -

<u>Year Ended</u> <u>December 31,</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2013	\$ 2,004,263	55.31 %	\$ 7,541,035
2014	1,937,709	60.66	8,303,408
2015	1,989,401	94.52	8,412,380

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Funded Status and Funding Progress -

The projection of future benefit payments for an ongoing Plan involves estimates for the value of the reported amounts and assumptions about the probability or occurrence of events far into the future. 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.

Schedule of Funding Progress -

Actuarial Valuation Date	Actuarial Value of of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
12/31/09	\$ 607,641	\$ 25,314,167	\$ 24,706,526	2.40 %	\$ 2,995,142	824.89 %
12/31/11	638,763	27,399,478	26,760,715	2.30	2,902,123	922.10
12/31/13	839,502	26,711,098	25,871,596	3.10	2,878,870	898.67

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 multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of 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 the 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 required contribution rate was determined as part of the December 31, 2013 actuarial valuation using the individual entry age actuarial cost method. The actuarial assumptions included (a) 6% net investment rate of return for active employees, (b) projected salary increases of 4.0% plus merit and longevity increases ranging from 0.75% to 6.00% per year, and (c) projected health care premium increases of 4% to 9% per year. The actuarial value was determined using techniques that smooth the effect of short-term volatility in the market of investments over a five-year period. The Plan unfunded actuarial accrued liability is being amortized by level percent of active member payroll contributions on an open period over 18 years.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 13 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Bay County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, 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 14 - 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 of Michigan, which authorizes contracts between municipal corporations (interlocal 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 Bay County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile 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.

The Road Commission is also a member of the County Road Association Self Insurance Fund for workers' compensation insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission is self-insured for health care benefits with the administrative services of the program being performed by a health insurance company. The Road Commission makes monthly payments, based on estimated claims and a stop-loss provision, which are adjusted quarterly. The Road Commission pays claims up to \$75,000 per contract per contract year. Based on claims incurred, the Road Commission has estimated the accrued health care claims, including an estimate for claims incurred but not reported (IBNR), of \$0 at December 31, 2015 and 2014.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 14 - RISK MANAGEMENT - (cont'd):

Changes in the balance of the self-funded health claims provision for the years ended December 31 are as follows:

	2015	2014
Unpaid claims, beginning of year	\$ -	\$ -
Incurred claims (including IBNR's)	2,146,311	2,127,858
Claims paid	(2,146,311)	(2,127,858)
Unpaid (prepaid) claims, end of year	-	-
Less current portion	-	-
Long-term Liabilities	\$ -	\$ -

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE:

During the year, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The statements require the net pension asset and related deferred outflows of resources and deferred inflows of resources for the Road Commission to be reported on the statement of net position and within the note disclosures. The statements also require contributions that are made to the plan after the measurement date to be classified as deferred outflows of resources on the statement of net position. The effect of implementing these statements increased net position at December 31, 2014 of the governmental activities by \$7,521,815.

NOTE 16 - PRIOR PERIOD MISSTATEMENT:

During the year, an examination of the infrastructure by management revealed the allocation utilized to previously record certain capital additions between depreciable and non-depreciable categories was found to be inaccurate. As such, land improvements were reclassified as road improvements, and the associated depreciation was recorded through December 31, 2014. In addition, certain other differences between the fixed assets, subsidiary records, and amounts previously reported in the financial statements were identified and corrected.

As a result, capital assets and corresponding net position of the governmental activities was overstated by \$6,234,486 at December 31, 2014, while change in net position of the governmental activities was overstated by \$111,919 for the year ended December 31, 2014. Beginning net position of the governmental activities at January 1, 2015 has been restated to correct these misclassifications.

REQUIRED SUPPLEMENTARY INFORMATION

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Permits	\$ 46,389	\$ 53,840	\$ 57,866	\$ 4,026
Intergovernmental -				
Federal sources	793,038	1,454,479	2,134,645	680,166
State sources	10,210,947	9,241,596	8,967,583	(274,013)
Local sources	2,529,000	2,100,000	2,105,451	5,451
Charges for services	1,742,984	1,702,470	1,620,425	(82,045)
Interest and rents	41,706	40,425	(6,543)	(46,968)
Other	108,318	30,622	72,690	42,068
Total Revenues	<u>15,472,382</u>	<u>14,623,432</u>	<u>14,952,117</u>	<u>328,685</u>
Expenditures:				
Current -				
Primary construction/capacity improvements	-	2,308,919	2,206,860	102,059
Primary preservation - structural improvements	4,504,197	1,487,214	2,226,856	(739,642)
Local preservation - structural improvements	2,659,255	1,642,818	1,620,173	22,645
Primary routine maintenance	2,621,000	2,398,378	2,270,056	128,322
Local routine maintenance	2,739,475	2,955,618	2,737,535	218,083
State trunkline maintenance	1,701,017	1,697,765	1,646,998	50,767
State trunkline nonmaintenance	33,658	1,765	2,059	(294)
Administrative- net	962,045	1,254,657	1,246,043	8,614
Equipment - net	(47,952)	613,103	(51,612)	664,715
Other - services	218,554	332,901	338,903	(6,002)
Capital outlay - net	106,549	(118,937)	(152,632)	33,695
Debt service	59,162	59,162	59,162	-
Total Expenditures	<u>15,556,960</u>	<u>14,633,363</u>	<u>14,150,401</u>	<u>482,962</u>
Change in Fund Balance	(84,578)	(9,931)	801,716	811,647
Fund Balance at January 1, 2015	<u>4,801,743</u>	<u>4,801,743</u>	<u>4,801,743</u>	<u>-</u>
Fund Balance at December 31, 2015	<u>\$ 4,717,165</u>	<u>\$ 4,791,812</u>	<u>\$ 5,603,459</u>	<u>\$ 811,647</u>

BAY COUNTY ROAD COMMISSION

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
LAST TEN FISCAL YEARS
(PLAN YEAR END)**

	Year Ended December 31,	
	2014	2013-2005*
Proportion of net pension asset	25.80%	0.00%
Proportionate share of net pension asset	\$ 7,175,781	\$ -
Covered Payroll	\$ 3,140,250	\$ -
Proportionate share of net pension asset as a percentage of covered payroll	228.51%	0.00%
Plan fiduciary net position as a percentage of total pension liability	147.21%	0.00%

* GASB 68 was implemented for fiscal year ended December 31, 2015, the Road Commission did not elect retroactive implementation.

BAY COUNTY ROAD COMMISSION
EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ROAD COMMISSION CONTRIBUTIONS
LAST TEN FISCAL YEARS

	Year Ended December 31	
	2015	2014-2006*
Actuarially determined contributions	\$ 562,787	\$ -
Contributions in relation to the actuarially determined contribution	562,787	-
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll	\$ 3,048,019	\$ -
Contributions as a Percentage of Covered Employee Payroll	18.46%	0.00%

Valuation Date December 31, two years prior of the end of the fiscal year

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Asset valuation method	Market value of assets
Inflation	3.0%
Salary increases	4.25% to 9.50% including inflation of 3.50%
Investment rate of return	7.5%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Population Scale BB (multiplied by 75% for pre-retirement mortality and 110% for post-retirement mortality for both males and females).

*GASB 68 was implemented for fiscal year ended December 31, 2015, and the Road Commission did not elect retroactive implementation.

SUPPLEMENTARY INFORMATION

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

Revenues:

Permits	\$ 57,866
Federal Sources -	
Surface Transportation Program (STP)	2,074,726
Medicare Part D	59,919
	2,134,645
State Sources -	
Michigan Transportation Funds - Act 51 -	
Engineering	10,000
Primary roads	4,892,238
Local roads	1,922,406
Urban roads	1,109,851
Other - PA 252	656,914
Other - PA 84	312,141
Rural Primary D	64,033
	8,967,583
Local Sources -	
Township contributions	1,800,182
Other contributions	305,269
	2,105,451
Charges for Services -	
State trunkline maintenance	1,615,371
State trunkline nonmaintenance	2,050
Salvage sales	3,004
	1,620,425
Interest and rents	(6,543)
Other -	
Sundry refunds	7,845
Royalty revenue	22,182
Gain on equipment disposal	5,000
Other	37,663
	72,690
Total Revenues	\$ 14,952,117

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

Expenditures:

Construction/ Capacity Improvements - Primary roads and structures	<u>\$ 2,206,860</u>
Preservation - Structural Improvements Primary roads and structures	2,226,856
Local roads and structures	<u>1,620,173</u>
	<u>3,847,029</u>
Maintenance - Primary roads and structures, winter and traffic control	2,270,056
Local roads and structures, winter and traffic control	<u>2,737,535</u>
	<u>5,007,591</u>
State Maintenance - State Trunkline maintenance	1,646,998
State Trunkline nonmaintenance	<u>2,059</u>
	<u>1,649,057</u>
Equipment - Direct	968,539
Indirect	879,302
Operating	279,165
Less - equipment rental	(2,178,618)
	<u>(51,612)</u>
Administrative - Administration	1,399,914
Less - overhead	(131,425)
- purchase discounts	<u>(22,446)</u>
	<u>1,246,043</u>
Other - Services	<u>338,903</u>
Capital Outlay - Land improvements, building and equipment	377,370
Less - depreciation	(530,002)
	<u>(152,632)</u>
Debt Service - Principal retirement	55,932
Interest	3,230
	<u>59,162</u>
Total Expenditures	<u>\$ 14,150,401</u>

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Permits	\$ 18,165	\$ 19,536	\$ 20,165	\$ 57,866
Intergovernmental -				
Federal sources	2,134,645	-	-	2,134,645
State sources	6,310,747	2,656,836	-	8,967,583
Local sources	-	2,105,451	-	2,105,451
Charges for services	-	-	1,620,425	1,620,425
Interest and rents	(2,348)	-	(4,195)	(6,543)
Other	-	22,182	50,508	72,690
Total Revenues	<u>8,461,209</u>	<u>4,804,005</u>	<u>1,686,903</u>	<u>14,952,117</u>
Expenditures:				
Construction/ capacity improvements	2,206,860	-	-	2,206,860
Preservation - structural improvements	2,226,856	1,620,173	-	3,847,029
Maintenance	2,270,056	2,737,535	-	5,007,591
Other-				
Trunkline maintenance	-	-	1,646,998	1,646,998
Trunkline nonmaintenance	-	-	2,059	2,059
Administrative - net	755,160	490,883	-	1,246,043
Equipment - net	(17,448)	(21,483)	(12,681)	(51,612)
Other	-	-	338,903	338,903
Capital outlay - net	-	-	(152,632)	(152,632)
Debt service	-	-	59,162	59,162
Total Expenditures	<u>7,441,484</u>	<u>4,827,108</u>	<u>1,881,809</u>	<u>14,150,401</u>
Revenues over (under) expenditures before optional transfers	1,019,725	(23,103)	(194,906)	801,716
Optional transfer	(23,103)	23,103	-	-
Net Change in Fund Balance	996,622	-	(194,906)	801,716
Fund Balance at January 1, 2015	<u>1,723,282</u>	<u>-</u>	<u>3,078,461</u>	<u>4,801,743</u>
Fund Balance at December 31, 2015	<u>\$ 2,719,904</u>	<u>\$ -</u>	<u>\$ 2,883,555</u>	<u>\$ 5,603,459</u>