

# **BAY COUNTY ROAD COMMISSION**

(A Component Unit of Bay County, Michigan)

## **Financial Statements**

For the Year Ended December 31, 2021



SMITH & KLACZKIEWICZ, PC  
CERTIFIED PUBLIC ACCOUNTANTS

# Bay County Road Commission

(A Component Unit of Bay County)

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SMITH & KLACZKIEWICZ, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITOR'S REPORT

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

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Bay County Road Commission**, a component unit of Bay County, Michigan, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the **Bay County Road Commission's** basic financial statements as listed in the table of contents.

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 major fund of the **Bay County Road Commission**, as of December 31, 2021, 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.

***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **Bay County Road Commission** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Bay County Road Commission's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the

override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 *Bay County Road Commission's* internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the *Bay County Road Commission's* ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4-8), budgetary comparison information (pages 32-33), schedules related to the defined benefit pension plan (pages 34-39) and schedules related to the other postemployment benefits plan (pages 40-44) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 other supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The 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 other supplementary information schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2022, on our consideration of the ***Bay County 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ***Bay County Road Commission's*** 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 ***Bay County Road Commission's*** internal control over financial reporting and compliance.

*Smith + Klaehowitz PC*

***Saginaw, Michigan***

May 12, 2022

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# Bay County Road Commission

## Management's Discussion and Analysis

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As management of the Bay County 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, 2021. 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) fund financial statements, and (3) notes to the financial statements. 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 Bay County Road Commission's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Bay County Road Commission's assets, deferred outflows, liabilities and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position 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 (e.g., vested sick and vacation).

#### **Governmental Fund Financial Statements**

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

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

The Bay County Road Commission adopts an annual appropriated budget for the General Operating / Road Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

# Bay County Road Commission

## Management's Discussion and Analysis

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### 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 governmental fund financial statements. The notes to financial statements can be found on pages 13-31 of this report.

### FINANCIAL HIGHLIGHTS

#### Government-Wide Financial Analysis

As noted above net position may serve over time as a useful indicator of the Road Commission's financial position. As shown on the table below, the Road Commission's assets and deferred outflows exceeded liabilities and deferred inflows by \$98,655,873 at the end of the year.

Net position is separated into three major components, net investment in capital assets of \$101,452,620, restricted net position of \$7,660,195 and unrestricted net position / (deficit) of \$(10,456,942). The investment in capital assets reflects the Road Commission's investment in capital assets (i.e., land, infrastructure, buildings, vehicles and equipment), less all related debt issued to acquire those assets that are still outstanding. 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 Employee's Retirement System. These assets and deferred outflows, net of liabilities and deferred inflows are held in a trust and are not considered available to the Road Commission, except to satisfy pension obligations to retirees. The remaining balance of unrestricted net position / (deficit) represents the remaining amount may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the year, the Road Commission reported a positive balance in net position invested in capital assets and restricted net position and a negative balance in unrestricted net position. The deficit situation mainly results from implementing GASB statement number 75 in a prior year, which required the recording of a net OPEB liability of over \$8 million on the Statement of Net Position in the current year.

The following compares the current year and prior year net position in a condensed format:

	<u>2021</u>	<u>2020</u>
Assets –		
Current and other unrestricted assets	\$ 8,715,305	\$ 7,126,293
Capital and other long-term assets	<u>114,624,456</u>	<u>110,764,466</u>
Total assets	<u>123,339,761</u>	<u>117,890,759</u>
Deferred outflows of resources	<u>3,825,095</u>	<u>3,468,467</u>
Liabilities –		
Current liabilities	1,218,007	1,392,867
Long-term liabilities	<u>11,448,318</u>	<u>22,409,067</u>
Total liabilities	<u>12,666,325</u>	<u>23,801,934</u>

# Bay County Road Commission

## Management's Discussion and Analysis

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	<u>2021</u>	<u>2020</u>
Deferred inflows of resources	\$ 15,842,658	\$ 5,283,909
Net position –		
Net investment in capital assets	101,452,620	100,694,285
Restricted for pension benefits	7,660,195	6,065,764
Unrestricted (deficit)	<u>(10,456,942)</u>	<u>(14,486,666)</u>
Total net position	<u>\$ 98,655,873</u>	<u>\$ 92,273,383</u>

The following presents a comparison of revenues, expenses and changes in net position for the current and prior year in a condensed format:

	<u>2021</u>	<u>2020</u>
Revenues –		
Charges for services	\$ 4,384,795	\$ 4,665,136
Operating grants and contributions	14,177,173	12,642,429
Capital grants and contributions	2,957,825	3,557,906
General revenue	<u>89,484</u>	<u>108,238</u>
Total	21,609,277	20,973,709
Expenses –		
Public works	<u>15,226,787</u>	<u>17,210,188</u>
Change in net position	<u>\$ 6,382,490</u>	<u>\$ 3,763,521</u>

### Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information can be useful in assessing the Road Commission's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of the Road Commission's net resources available to finance routine and emergency spending in succeeding years.

For the year ended December 31, 2021, the fund balance of the Road Commission increased by \$1,763,872 to \$7,497,298. Of this amount, \$1,226,536 is not spendable (prepaid items and inventory) and \$6,270,762 is restricted because it may only be used for operations of the Road Commission and to finance future construction and maintenance projects on the County's road and bridge system.

Total revenues were \$21,609,277, an increase of \$635,568 as compared to the prior year. This was primarily the result of increases in MTF revenue from the State and charges to local units for road projects. Total expenditures of \$19,845,405 decreased \$5,149,454 over the prior year, mainly as a result of decreased activity for road improvement projects.

### BUDGETARY HIGHLIGHTS

The Road Commission amended its annual budget to reflect status changes in planned expenditures for preservation and maintenance, State trunkline maintenance projects,

# Bay County Road Commission

## Management's Discussion and Analysis

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administration, equipment and capital outlay. The final revenue budget was \$733,326 less than the original budget due to changes in projections of several sources, including Federal and State sources, contributions from local units and State trunkline maintenance. The final expenditure budget was \$1,503,457 less than the original budget due mainly to changes in projections for preservation and maintenance expenditures, State trunkline maintenance and capital outlay. The actual revenues were \$859,293 more than the amended budget and the actual expenditures were \$621,607 more than the amended budget. This situation was due mainly to a combination of higher than projected costs for road projects and net capital outlay.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – The Road Commission had \$103,502,845 in net capital assets at the end of the year, a net increase of \$207,846. The reason for the increase from the previous year is the result of capital outlay and the capitalization of road and bridge projects funded by Federal, State and local sources, net of depreciation and disposals. A summary of capital assets net of accumulated depreciation at year-end in comparison to the previous year is as follows:

	<u>2021</u>	<u>2020</u>
Nondepreciable capital assets	\$ 37,348,905	\$ 37,348,905
Buildings and improvements, net	672,947	697,439
Equipment, net	1,988,396	1,899,622
Infrastructure, net	<u>63,492,597</u>	<u>63,349,033</u>
Total, net	<u>\$103,502,845</u>	<u>\$ 103,294,999</u>

Additional information about the Road Commission's capital assets activity may be found in Note C on page 21 of the financial statements.

**Long-term Liabilities** – The Road Commission recorded liabilities of \$926,447 for accrued compensated absences and \$2,050,225 for installment purchase agreements. The Road Commission made scheduled debt service payments for principal of \$550,486 and \$68,480 for interest. Additional information on the Road Commission's long-term liabilities may be found in Note C on page 20 of the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of County Road Commissioner's, County of Bay (BCRC) considers many factors when adopting an annual budget. Fiscal year 2022 was no different. Initially, line item budgets are assigned to Primary and Local road categories, including routine maintenance, snow removal and traffic control. Capital outlay and improvement needs for 2022 were determined and associated costs added to the budget. Administrative costs and other expenses to "run the business" were also calculated and included.

A thorough review of all programmed 2022 Federal and State-Aid construction projects requiring BCRC matching dollars was completed. These Local Match dollars were budgeted first. By utilizing Federal and State transportation programs, the BCRC is able to secure additional revenue, thus able to complete additional construction projects. A calculation to

# Bay County Road Commission

## Management's Discussion and Analysis

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determine the costs of planned Township construction projects during the fiscal year was completed. This defines the revenue the BCRC expects to receive by providing labor and equipment for township projects. Any other projects slated for completion due to funding received from other sources are added to the budget. Lastly, the BCRC includes projects, as determined through its 10-Year Road Asset Management Plan, utilizing any Michigan Transportation Fund (MTF) dollars not yet committed to other line items.

In 2021, the BCRC again, utilized the Rural Task Force Exchange Program. This allowed the BCRC to purchase \$688,037 in State-Aid for \$550,430 or 80 cents on the dollar. Again, allowing the BCRC to complete more infrastructure projects in 2022.

Fiscal year 2021 was the last year of scheduled increases associated with the legislation passed in 2016. Increases in the MTF for 2022 and future years is based on an inflationary factor, which was used to calculate the 2022 BCRC budget. However, due to continued losses associated with the COVID pandemic, high inflation, the elevated cost for materials and the possibility of material shortages, the BCRC favored a conservative position when calculating the anticipated MTF revenue for 2022. Not knowing when or if the MTF revenue would return to "normal", coupled with the other major factors listed above, the 2022 budget has safeguards in place, should MTF revenues not meet expected projections and material costs significantly increase.

**The biggest disappointment late in 2021, that carried into the 2022 budget, was the exclusion of state road commissions, in receiving American Rescue Plan Act (ARPA) funds.** Of all the public agencies, road commissions were hardest hit, as *revenues fell dramatically due to significant reductions* in fuel use and vehicle licensing during the COVID pandemic. Not including road commissions as recipients of ARPA dollars was extremely disappointing and short-sighted. The services road commissions provide, the roads and bridges they maintain, directly drive Michigan's economy.

The Board realizes, and the reader should understand, stagnant funding levels persisted from 2006 through 2016. Major infrastructure improvements were put on hold. Even with the increased revenue, there are not sufficient funds available to repair and/or rebuild the roads and bridges in Bay County all at the same time. This requires formulation of a long-term plan and revising/adapting those plans to ever changing financial conditions. That effort has begun and will be codified in the form of the BCRC's 10-Year Road, Bridge and Storm Water Asset Management Plans. Therefore, the Board and its staff remain diligent in identifying cost-effective ways to utilize the public dollar, the result being in the best interest of Bay County's motoring public.

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

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Bay County administrative office at 2600 E. Beaver Road, Kawkawlin, MI 48631.



## **BASIC FINANCIAL STATEMENTS**

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## Bay County Road Commission

### General Operating / Road Fund Balance Sheet and Statement of Net Position

December 31, 2021

	General Operating / Road Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents	\$ 153,062	\$ -	\$ 153,062
Investments	4,409,654	-	4,409,654
Receivables			
Due from other governmental units	2,888,307	-	2,888,307
Due from other sources	30,244	-	30,244
Interest receivable	7,502	-	7,502
Inventories			
Equipment material and parts	251,636	-	251,636
Road materials	883,033	-	883,033
Prepaid items	91,867	-	91,867
Net pension asset	-	11,121,611	11,121,611
Capital assets, net			
Assets not being depreciated	-	37,348,905	37,348,905
Assets being depreciated	-	66,153,940	66,153,940
Total assets	8,715,305	114,624,456	123,339,761
<b>Deferred outflows of resources</b>	-	3,825,095	3,825,095
Total assets and deferred inflows	\$ 8,715,305	118,449,551	127,164,856
<b>Liabilities</b>			
Accounts payable	\$ 572,968	46,097	619,065
Accrued liabilities	130,604	19,838	150,442
Deposits payable	15,000	-	15,000
Advances			
State trunkline capital equipment	332,032	-	332,032
State trunkline maintenance	167,403	-	167,403
Long-term liabilities			
Net OPEB liability	-	8,405,711	8,405,711
Installment purchase agreements	-	2,050,225	2,050,225
Accrued compensated absences	-	926,447	926,447
Total liabilities	1,218,007	11,448,318	12,666,325
<b>Deferred inflows of resources</b>	-	15,842,658	15,842,658
<b>Fund Balance / Net Position</b>			
Fund balance			
Nonspendable			
Inventory	1,134,669	(1,134,669)	-
Prepaid items	91,867	(91,867)	-
Restricted for road system	6,270,762	(6,270,762)	-
Total fund balance	7,497,298	(7,497,298)	-
Total liabilities, deferred inflows and fund balance	\$ 8,715,305		
<b>Net Position:</b>			
Net investment in capital assets		101,452,620	101,452,620
Restricted for pension benefits		7,660,195	7,660,195
Unrestricted (deficit)		(10,456,942)	(10,456,942)
Total net position		\$ 98,655,873	\$ 98,655,873

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

## Bay County Road Commission

### Reconciliation of Fund Balances of the General Operating / Road Fund to Net Position of Governmental Activities

December 31, 2021

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Fund balance - General Operating / Road Fund	\$	7,497,298
The amount reported as net position in the <i>governmental activities</i> in the Statement of Net Position are different because:		
Accruals for the self-insured health plan are not a current financial resources or obligations, therefore are not reported in the fund financial statements		
		(19,838)
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the General Operating / Road Fund.		
Add - capital assets not being depreciated		37,348,905
Add - capital assets being depreciated		141,127,018
Deduct - accumulated depreciation		(74,973,078)
Certain pension-related amounts such as the net pension asset and deferred amounts are not due an payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements		
Net pension asset		11,121,611
Deferred outflows related to the net pension asset		1,705,138
Deferred inflows related to the net pension asset		(5,166,554)
Certain OPEB-related amounts such as the net OPEB liability and deferred amounts are not due an payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements		
Net OPEB liability		(8,405,711)
Deferred outflows related to the net OPEB liability		2,119,957
Deferred inflows related to the net OPEB liability		(10,676,104)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the General Operating / Road Fund.		
Deduct - installment purchase agreements		(2,050,225)
Deduct - incurred but not reported (IBNR) claims of self-insured plan		(46,097)
Deduct - accrued compensated absences		(926,447)
Net position of governmental activities	\$	<u>98,655,873</u>

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

## Bay County Road Commission

### General Operating / Road Fund Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities

*For the Year Ended December 31, 2021*

	<b>General Operating / Road Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Expenditures/expenses</b>			
Public works	\$ 12,624,556	\$ 2,533,751	\$ 15,158,307
Capital outlay	6,601,883	(6,601,883)	-
Debt service	618,966	(550,486)	68,480
Total expenditures/expenses	19,845,405	(4,618,618)	15,226,787
<b>Program revenue</b>			
Charges for services	4,384,795	-	4,384,795
Operating grants and contributions			
State transportation and other funds	14,177,173	-	14,177,173
Capital grants and contributions			
Federal sources	2,202,190	-	2,202,190
State sources	755,635	-	755,635
Total program revenue	21,519,793	-	21,519,793
Net program revenue			6,293,006
<b>General revenue</b>			
Sales of capital assets and yard materials	55,186	-	55,186
Interest and rents	34,298	-	34,298
Total general revenue	89,484	-	89,484
Total revenue	21,609,277		
Revenue over (under) expenditures / expenses	1,763,872	(1,763,872)	-
Change in net position	-	6,382,490	6,382,490
Fund balance / net position:			
Beginning of the year	5,733,426	86,539,957	92,273,383
<b>End of the year</b>	<b>\$ 7,497,298</b>	<b>\$ 91,158,575</b>	<b>\$ 98,655,873</b>

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

## Bay County Road Commission

### Reconciliation of Net Change in Fund Balance of the General Operating / Road Fund to Change in Net Position of Governmental Activities

For the Year Ended December 31, 2021

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Change in fund balance - General Operating / Road Fund	\$ 1,763,872
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:	
The change in the prepaid expense for the self-insured plan does not impact current financial resources and therefore is not reported in the fund financial statements	
	(100,794)
The change in the net pension asset and the related deferred inflows / outflows of resources does not impact current financial resources and therefore is not reported in the fund financial statements	
Net pension asset	3,733,103
Deferred outflows related to the net pension liability	(386,922)
Deferred inflows related to the net pension liability	(1,751,750)
The change in the net OPEB liability and the related deferred inflows / outflows of resources does not impact current financial resources and therefore is not reported in the fund financial statements	
Net OPEB liability	10,340,608
Deferred outflows related to the net OPEB liability	743,550
Deferred inflows related to the net OPEB liability	(8,806,999)
Fund financial statements report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	1,036,796
Add - infrastructure purchases	5,565,087
Deduct - depreciation expense	(6,383,039)
Deduct - loss on disposal of capital assets	(10,998)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the General Operating / Road Fund.	
Principal paid on long-term debt	550,486
Change in insured but not reported (IBNR) claims of self-insured plan	522
Change in accrued compensated absences	88,968
Change in net position of governmental activities	<u>\$ 6,382,490</u>

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

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# Bay County Road Commission

## Notes to Financial Statements

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### **NOTE 1 – Summary of Significant Accounting Policies**

The accounting policies adopted by the *Bay County Road Commission* (the “Road Commission”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied 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 following is a summary of the significant policies.

#### **Reporting Entity**

The *Bay County Road Commission* is a discrete component unit of the County of Bay, Michigan. The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable. The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Michigan Department of Transportation for work done by the County on State trunklines, Federal Transportation funds and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is established pursuant to the County Road Law (MCL224.1) and operates under a 3-member elected Board of County Road Commissioners. The Board of County Road Commissioners establishes policies and reviews operations of the Road Commission. The Road Commission provides services to 14 Townships in Bay County and maintains 77 bridges and over 1,600 miles of State, primary and local roads.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Road Commission. *Governmental activities* are supported by charges for services and intergovernmental grants and contributions.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the General Operating / Road Fund Balance Sheet, Statement of Net Position, Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities. The General Operating / Road Fund is considered to be a major fund for financial reporting purposes.

# Bay County Road Commission

## Notes to Financial Statements

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### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (Statement of Net Position and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (General Operating / Road Fund) financial statements (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year, pension and retiree healthcare contributions and claims and judgments are recorded only when payment is due.

State and Federal revenue, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Road Commission.

The Road Commission reports the following major *governmental* fund:

The *General Operating / Road Fund* is the Road Commission's primary operating fund. It accounts for all financial resources of the Road Commission, except those required to be accounted for in another fund.

### **Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity**

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and deposits in demand and time deposit accounts.

#### Investments

The Road Commission's investments are comprised of a pooling of investments that is maintained by the Bay County Treasurer.

#### Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

#### Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenditures in both the government-wide and fund financial statements. The governmental activities also report deposits/prepayments made to the self-insured healthcare benefits program as prepaids.

#### Inventory

Inventory consists of various operating parts, supplies and road material and is stated at cost, using the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used.

# Bay County Road Commission

## Notes to Financial Statements

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### Capital Assets

Land, buildings, equipment and infrastructure assets (roads, bridges and other similar items) are reported as capital assets in the government-wide financial statements (Statement of Net Position). Capital assets are defined by the Road Commission as land, buildings, improvements and equipment (except road equipment), with an initial individual cost of \$4,000 or more and an estimated useful life in excess of one (1) year. No minimum cost is used to record road equipment capital assets that appear in the State Equipment List (Schedule C). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital outlay expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (General Operating / Road Fund) column. Infrastructure is reported prospectively from 1980, except for rights-of-way, bridges and traffic signals, which are required to be reported regardless of the date of purchase. The Uniform Accounting Procedures Manual for Michigan County Road Commissions (the "Manual") provides for removing roads from capital assets at the time the group of individually recorded roads becomes fully depreciated.

The Manual also provide for recording depreciation in the General Operating / Road Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating / Road Fund.

The Manual also provides for the net book value of road equipment that is retired to be reported as an equipment retirement in the equipment retirement credit account that is offset against capital outlay. The net of any proceeds received for the retirement (sale, abandonment, trade-in, etc.) is reported as a gain or loss on disposal of equipment. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating / Road Fund.

Depreciation is recorded over the following estimated useful lives using the sum-of-years digits method for road equipment and the straight-line method for all other capital assets and infrastructure:

Buildings and improvements	8 to 50 years
Road equipment	5 to 8 years
Shop equipment	5 to 10 years
Office equipment	5 to 10 years
Engineering equipment	5 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years

### Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense / expenditure) until then. The Road Commission has several balances related to the defined benefit pension plan and the defined benefit retiree healthcare plan in this category that are reported in the government-wide financial statements.

# Bay County Road Commission

## Notes to Financial Statements

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### Advances from the State of Michigan

The State of Michigan advances funds on a State maintenance agreement that it has with the Road Commission for specific maintenance performed by the Road Commission during the year. The advance is considered a current liability because it is subject to repayment annually, based upon results of audit procedures performed by the State of Michigan.

### State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, as a result of current year operations cannot be reasonably determined and is therefore not recorded.

### Compensated Absences

In accordance with the union contract and policies adopted by the Board of County Road Commissioners, employees have a vested right upon termination of employment to receive compensation for accumulated unused sick leave and vacation time under formulas and conditions specified in the contract / policies.

Vacation and sick leave payable is reported in the General Operating / Road Fund only for matured amounts, for example, as a result of employee resignations and retirements. There were no matured amounts at year-end and therefore no accrual is reported in the General Operating / Road Fund and no amount is reported as payable within one year. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

### Defined Benefit Pension Plan

The Road Commission offers a defined benefit pension plan to its employees through participation in the Bay County Employees' Retirement System. The Road Commission records a net pension asset for its proportionate share of the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. The Road Commission's proportionate share of the collective net pension asset is calculated as the representative percentage of the total actuarially determined contributions and was 12.77% in the current year and 13.16% in the prior year.

### Other Postemployment Benefits

The Road Commission offers healthcare benefits to retirees through participation in the Bay County Voluntary Employees Beneficiary Association (VEBA) trust. The Road Commission records a net OPEB liability for its proportionate share of the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. The Road Commission's proportionate share of the collective net OPEB liability is calculated as the representative percentage of the total actuarially determined contributions and was 19.98% in the current year and 21.82% in the prior year.

# Bay County Road Commission

## Notes to Financial Statements

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### Fund Equity

In the financial statements, the General Operating / Road Fund reports the following components of fund balance:

#### Nonspendable

Amounts that are not in spendable form or are legally or contractually required to be maintained intact are reported as nonspendable fund balance.

#### Restricted

Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted fund balance.

#### Committed

Amounts that have been formally set aside by the Board of County Road Commissioners for use for specific purposes are reported as committed fund balance. Commitments are made and can only be rescinded by resolution of the Board of County Road Commissioners.

#### Assigned

Amounts that are constrained by the Road Commission's *intent* to be used for specific purposes but are neither restricted nor committed are reported as assigned fund balance. The Board of County Road Commissioners has authorized the Managing Director or his designee the authority to assign fund balance on behalf of the Road Commission.

#### Unassigned

Amounts that have not been restricted, committed or assigned to specific purposes are reported as unassigned fund balance.

When the Road Commission incurs expenditures for purposes for which various fund balance classifications can be used, it is the Road Commission's policy to use restricted fund balance first, then committed fund balance, assigned fund balance and finally unassigned fund balance.

### Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report deferred inflows of resources in a separate section. This separate financial statement element represents an acquisition of net position that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has several balances related to the defined benefit pension plan and the defined benefit retiree healthcare plan in this category that are reported in the government-wide financial statements.

### Equipment Rental

The Manual requires that the cost of operating equipment, including depreciation, be allocated (charged) to the various activities. The effect of this allocation is offset to equipment expenditures / expenses. As a result, fund balance is not affected.

### Handling and Overhead Credits

The Manual requires that the charging of handling and overhead based upon a calculation related to a specific project's cost (particularly projects on the State Trunkline) be reported as an expenditure to the project, with a credit to administrative expenditures. As a result, fund balance is not affected.

# Bay County Road Commission

## Notes to Financial Statements

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### Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **NOTE B - Stewardship, Compliance and Accountability**

#### **Auditing and Reporting**

The audit was performed 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 as described in the Independent Auditors' Report and with the types of compliance requirements described in Public Act 51 of 1951, as amended. The financial statements were prepared in accordance with U.S. GAAP, as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

### **NOTE C - Detailed Notes on Select Financial Statement Captions / Transaction Classes**

#### **Deposits and Investments**

At year-end, the carrying amounts of the Road Commission's deposits and investments were as follows:

	<u>General Operating / Road Fund</u>
Cash on hand	\$ 550
Deposits with financial institutions - demand	<u>152,512</u>
Sub-total	153,062
Investments maintained by County Treasurer	<u>4,409,654</u>
Total	<u>\$ 4,562,716</u>

#### **Deposit and Investment Risk**

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

# Bay County Road Commission

## Notes to Financial Statements

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- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

### *Interest Rate Risk*

The Road Commission's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### *Credit Risk*

The Road Commission's investment policy does not have specific limits in excess of State law on investment credit risk.

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require, and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, none of the Road Commission's bank balance of \$210,621 was exposed to custodial credit risk because it was uninsured under FDIC coverage and was uncollateralized.

The Road Commission has determined that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Road Commission evaluates each financial institution and assesses the level of risk associated with each financial institution. The Road Commission's policy is to conduct business only with financial institutions that have an acceptable estimated level of risk as a depository.

### *Investments*

The Road Commission participates in an investment pool administered by the County Treasurer. The Treasurer invests surplus funds of the County and its component units in certificates of deposit, governmental obligations, commercial paper and money market funds. Information regarding these investments, including fair value measurement, categorization, risks and other disclosures cannot be separately determined for the Road Commission. Information about the County's investment pool as a whole may be obtained from the Bay County Comprehensive Annual Financial Report for the year ended December 31, 2021.

### **Receivables**

The year-end balance in receivables was comprised of the following:

Michigan Transportation Fund	\$ 2,549,652
State trunkline maintenance	294,966
State trunkline non-maintenance	193
Due on road agreements	50,154
Accrued interest	7,502
Sundry and other accounts receivable	<u>23,586</u>
Total	<u>\$ 2,926,053</u>

# Bay County Road Commission

## Notes to Financial Statements

### Long-term Debt

Long-term debt activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes from direct borrowings and direct payments:					
Installment purchase agreements	\$ 2,600,714	\$ -	\$ (550,486)	\$ 2,050,228	\$ 539,286
Compensated absences	1,015,415	295,842	(384,810)	926,447	385,000
Total	\$ 3,616,129	\$ 295,842	\$ (935,296)	\$ 2,976,675	\$ 924,286

Following is a summary of outstanding debt at year-end:

Notes from direct borrowings and direct payments:

Installment agreement payable to the Bay County Drain Commissioner, due in annual installments including interest at 2.60% through 2024. Hoppler Drain.	\$ 663,600
Installment agreement payable to the Bay County Drain Commissioner, due in annual installments including interest at 2.50% through 2025. Tebo Erickson Drain.	815,200
Installment agreement payable to the Bay County Drain Commissioner, due in annual installments including interest at 3.50% through 2026. Waldo Drain.	571,428
Subtotal	2,050,228
Compensated absences	926,447
Total	\$ 2,976,675

Debt service requirements to maturity for direct borrowings and direct placements are as follows:

Year Ending December 31	Principal	Interest
2022	\$ 539,286	\$ 53,634
2023	539,286	38,787
2024	539,286	23,941
2025	318,085	9,095
2026	114,285	-
Total	\$ 2,050,228	\$ 125,457

### Accrued Compensated Absences

In accordance with Board policy and labor agreements, employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the policy and agreements. The estimated dollar amounts of these vested rights, which have been accrued on the government-wide financial statements, amounted to approximately \$702,000 for sick leave and \$225,000 for vacation at year-end.

# Bay County Road Commission

## Notes to Financial Statements

### Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	\$ 400,237	\$ -	\$ -	\$ 400,237
Land improvements	36,239,007	-	-	36,239,007
Right-of-ways	349,661	-	-	349,661
Depletable assets - wetlands	360,000	-	-	360,000
Total capital assets not being depreciated	37,348,905	-	-	37,348,905
Capital assets being depreciated				
Buildings and improvements	2,887,925	49,233	(40,733)	2,896,425
Road equipment	13,389,085	987,563	(55,262)	14,321,386
Shop equipment	106,754	-	(12,936)	93,818
Office equipment	167,891	-	(4,255)	163,636
Engineer equipment	126,855	-	(12,036)	114,819
Yard and storage equipment	1,396,051	-	-	1,396,051
Infrastructure - roads	97,277,351	3,560,844	(3,622,328)	97,215,867
Infrastructure – bridges	22,220,223	2,004,243	-	24,224,466
Infrastructure – traffic signals	700,550	-	-	700,550
Total capital assets being depreciated	138,272,685	6,601,883	(3,747,550)	141,127,018
Less accumulated depreciation				
Buildings and improvements	(2,190,486)	(66,506)	33,514	(2,223,478)
Road equipment	(11,536,735)	(864,797)	55,262	(12,346,270)
Shop equipment	(104,484)	(242)	10,908	(93,818)
Office equipment	(154,612)	(6,843)	3,102	(158,353)
Engineer equipment	(119,361)	(4,554)	11,438	(112,477)
Yard and storage equipment	(1,371,822)	(18,574)	-	(1,390,396)
Infrastructure – roads	(43,997,135)	(4,891,054)	3,622,328	(45,265,861)
Infrastructure – bridges	(12,268,622)	(498,555)	-	(12,767,177)
Infrastructure – traffic signals	(583,334)	(31,914)	-	(615,248)
Total accumulated depreciation	(72,326,591)	(6,383,039)	3,736,552	(74,973,078)
Net capital assets being depreciated	65,946,094	218,844	(10,998)	66,153,940
Total net capital assets	\$ 103,294,999	\$ 218,844	\$ (10,998)	\$ 103,502,845

# Bay County Road Commission

## Notes to Financial Statements

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### **NOTE D – Defined Benefit Pension Plan (BCERS)**

#### 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 eligible 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, Third Floor, Bay City, Michigan, 48708.

For the purpose of measuring the net pension asset, deferred outflows of resources related to the Plan 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.

#### 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.

#### Employees Covered by the Benefit Terms

At the December 31, 2020 measurement date, the following Road Commission participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	93
Inactive plan members entitled to but not yet receiving benefits	1
Active employees	<u>55</u>
Total participants	<u>149</u>

# Bay County Road Commission

## Notes to Financial Statements

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### Contribution Requirements

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, BCERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Participants of the Plan contribute between 4.0% to 5.0% of annual covered payroll. The Road Commission contributes the actuarially determined amount, which was 15.08% of annual covered payroll for the year ended.

### Actuarial Assumptions

The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry-age normal
Asset valuation method	5-year smoothed market
Wage inflation	3.25%
Price inflation	2.50%
Salary increases	3.75% to 8.50%, including inflation
Investment rate of return	7.25%, net of investment expense and including inflation
Retirement age	Age-based table of rates specific to the type of eligibility
Mortality:	<i>Healthy Pre-Retirement:</i> RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016.  <i>Healthy Post-Retirement:</i> RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016.  <i>Disability Retirement:</i> RP-2014 Disabled Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016.

The rationale for the actuarial assumptions used in the December 31, 2020 valuation were based on the results of the most recent 5-year actuarial experience study through December 31, 2015, issued August 1, 2017.

A Single Discount Rate of 7.25% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.25%. Based on the System's current funding policy and practice of contributing 100% of the recommended contribution, it is the opinion of the actuaries that the Plan Fiduciary Net Position is sufficient to make all future projected benefit payments, assuming all other assumptions are realized. Therefore, the Single Discount Rate would equal the long-term expected rate of return of 7.25%.

# Bay County Road Commission

## Notes to Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	48.00%	7.50%
International equity	20.00	8.50
U.S. fixed income	25.00	2.50
Real estate	7.00	4.50
	100.00%	

### Net Pension Asset

The net pension asset reported at year-end was determined using a measure of the total pension liability and the pension net position as of December 31, 2020. The December 31, 2020 total pension liability was determined by an actuarial valuation performed as of that date. The Road Commission's proportionate share of the total Pension liability and the Plan's fiduciary net position was 13.16% at year-end. Changes in the Road Commission's proportionate share of the net pension asset during the year were as follows:

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Beginning balances	\$ 34,105,289	\$ 41,493,797	\$ (7,388,508)
Service cost	587,302	-	587,302
Interest on total pension liability	2,344,653	-	2,344,653
Expected / actual experience differences	(319,952)	-	(319,952)
Employer contributions	-	609,085	(609,085)
Employee contributions	-	222,380	(222,380)
Net investment income (loss)	-	6,198,343	(6,198,343)
Benefit payments	(2,099,067)	(2,099,067)	-
Administrative expenses	-	(24,834)	24,834
Changes in proportionate share	(1,009,368)	(1,669,236)	659,868
Other changes	-	-	-
Net changes	(496,432)	3,236,671	(3,733,103)
Ending balances	\$ 33,608,857	\$ 44,730,468	\$ (11,121,611)

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the Road Commission's proportionate share of the net pension liability (asset), calculated using the discount rate of 7.25%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

## Bay County Road Commission

### Notes to Financial Statements

	1% Decrease in Rate to 6.25%	Assumed Discount Rate 7.25%	1% Increase in Rate to 8.25%
Net pension liability (asset)	\$ (7,332,268)	\$ (11,121,611)	\$ (14,315,360)

*Pension Plan Fiduciary Net Position* - Detailed information about the Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to / deduction from fiduciary net position 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. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

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

During the year the Road Commission recognized a negative pension expense of \$1,600,876. At year-end, the Road Commission reported deferred outflows and deferred inflows of resources related to the pension from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date	\$ 493,136	\$ -
Net difference between projected and actual earnings on pension plan investments	-	4,584,812
Changes in assumptions	59,431	-
Changes in proportionate share	1,028,665	8,683
Differences between expected and actual experience	123,906	573,059
Total	\$ 1,705,138	\$ 5,166,554

The amount reported as deferred outflows and deferred inflows of resources related to the net difference between projected and actual earnings on pension plan investments, changes in assumptions and differences between expected and actual experience will be recognized as pension expense as follows:

Year Ending December 31,	Net Amount
2022	\$ (1,299,792)
2023	(481,003)
2024	(1,575,315)
2025	(613,794)
2026	15,352
Total	\$ (3,954,552)

# Bay County Road Commission

## Notes to Financial Statements

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The amount reported as deferred outflows of resources related to employer contributions to the plan made subsequent to the measurement date of \$493,136 will impact the net pension liability in 2022, as opposed to being amortized to pension expense over a period of years.

### **NOTE E – Postemployment Benefits Other than Pensions (OPEB)**

#### Plan Description, Membership and Benefits

The Road Commission participates in the Bay County Retiree Health Care Plan (the “Plan”). The Plan is an agent multiple 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 and spouses 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 benefits are provided under the collective bargaining agreement for union employees and by resolution of the Board of County Road Commissioners for nonunion employees. At year-end there were 88 retirees eligible for benefits under the plan. The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a “pay-as-you-go” basis).

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 and Contributions

The contribution requirements of plan members and the Road Commission are established by labor contracts and may be amended by the Board of County Road Commissioners through labor negotiations. The Plan does not require member contributions from Road Commission employees. The required contribution is based on projected pay-as-you-go financing requirements, with optional additional amounts to prefund benefits as determined by the Board of County Road Commissioners.

#### Annual OPEB Cost and Net OPEB Liability

The Road Commission’s annual other postemployment benefit (OPEB) cost (expense) is calculated based the *actuarially determined contribution of the employer (ADC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 75. The ADC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of 13 (thirteen) years.

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 expectation and new estimates are made about the future.

#### Participants Covered by the Benefit Terms

At the measurement date, the following participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	84
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>57</u>
Total participants	<u><u>141</u></u>

# Bay County Road Commission

## Notes to Financial Statements

### Contributions

Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. During the year, the Road Commission paid current retiree premiums of \$828,220 and made an advance funding contribution of \$480,000. The premiums for postemployment healthcare benefits and the advance funding payment were paid and recorded as expenditures in the General Operating / Road Fund.

### Net OPEB Liability

The net OPEB liability reported at year-end was determined using a measure of the total OPEB liability and the OPEB net position as of December 31, 2020. The December 31, 2020 total OPEB liability was determined by an actuarial valuation performed as of that date. The Road Commission's proportionate share of the total OPEB liability and the Plan's fiduciary net position was 21.82% at year-end. Changes in the Road Commission's proportionate share of the net OPEB liability during the year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Beginning balances	\$ 28,794,541	\$ 10,048,222	\$ 18,746,319
Service cost	241,798	-	241,798
Interest on total OPEB liability	1,823,544	-	1,823,544
Changes of benefit terms	-	-	-
Expected / actual experience differences	(8,812,357)	-	(8,812,357)
Changes in assumptions	920,056	-	920,056
Changes in proportionate share	(2,420,836)	(816,417)	(1,604,419)
Employer contributions	-	1,308,220	(1,308,220)
Employee contributions	-	-	-
Net investment income (loss)	-	1,615,927	(1,615,927)
Benefit payments	(887,945)	(887,945)	-
Administrative expenses	-	(14,917)	14,917
Other changes	-	-	-
Net changes	(9,135,740)	1,204,868	(10,340,608)
Ending balances	\$ 19,658,801	\$ 11,253,090	\$ 8,405,711

# Bay County Road Commission

## Notes to Financial Statements

### OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

During the year the Road Commission recognized a negative OPEB expense of \$(2,264,622). At year-end, the Road Commission reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date	\$ 480,000	\$ -
Employer-paid benefits subsequent to the measurement date	828,220	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,094,577
Changes in assumptions	760,456	46,367
Changes in proportionate share	51,281	1,827,337
Differences between expected and actual experience	-	7,707,823
Total	\$ 2,119,957	\$ 10,676,104

The amount reported as deferred inflows of resources related to the net difference between projected and actual earnings on OPEB plan investments, changes in assumptions, changes in proportionate share and differences between expected and actual experience will be recognized as OPEB expense as follows:

Year Ending December 31,	Amount
2022	\$ (2,305,208)
2023	(2,211,802)
2024	(2,217,194)
2025	(1,856,661)
2026	(1,273,502)
Total	\$ (9,864,367)

The amount reported as deferred outflows of resources related to employer contributions to the Plan and benefit payments made subsequent to the measurement date of \$1,308,220 will impact the net OPEB liability in 2022, as opposed to being amortized to OPEB expense over a period of years.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 valuation of the total OPEB liability was determined using the following actuarial assumptions (a) 7.00% net investment rate of return, (b) projected salary increases of 3.75% to 8.50% including wage inflation, (c) projected health care premium increases of 8.25%, gradually decreasing to 3.50% in year 9 and the RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with

# Bay County Road Commission

## Notes to Financial Statements

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future mortality improvements assumed each year using scale MP-2016. The Plan unfunded actuarial accrued liability is being amortized by level percent of active member payroll contributions on a closed period over 12 years.

The actuarial assumptions used in the December 31, 2020 valuation were based on the experience study covering the five-year period ending December 31, 2015, issued August 1, 2017.

### Discount Rate

A Single Discount Rate (SDR) of 7.00% was used to measure the total OPEB liability. This rate considers the ability of the fund to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in a future year, the assumed valuation discount rate is used. In years where assets are not projected to be sufficient to meet benefit payments, the use of a municipal bond rate is required, as described in the following paragraph.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on OPEB plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on OPEB plan investments is 7.00%; the municipal bond rate is 2.00%; and the resulting SDR is 7.00%.

### Investment Rate of Return

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed. The long-term expected real rate of return used in the valuation was 7.00%.

### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Road Commission's net OPEB liability, calculated using the discount rate of 7.00%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	1% Decrease in Rate to 6.00%	Assumed Discount Rate 7.00%	1% Increase in Rate to 8.00%
Net OPEB liability	\$ 10,690,392	\$ 8,405,711	\$ 6,491,882

# Bay County Road Commission

## Notes to Financial Statements

### Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Road Commission's net OPEB liability, calculated using the assumed cost trend rate, as well as what the net OPEB liability would be if it were calculated using a cost trend rate that is 1% lower or 1% higher than the current rate:

	1% Decrease in Cost Trend Rate	Assumed Cost Trend Rate	1% Increase in Cost Trend Rate
Net OPEB liability	\$ 6,249,674	\$ 8,405,711	\$ 10,999,206

### Net Equipment Expenditures Balance

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net balance in equipment expenditures for the year is comprised of the following:

Equipment –	
Direct	\$ 1,610,864
Indirect	845,773
Operating	320,078
Less equipment rental credits	<u>(2,361,808)</u>
Total, net	<u>\$ 414,907</u>

### Capital Outlay Expenditure Balance

On the governmental financial statements, the Road Commission reports a depreciation credit to offset capital outlay as a result of charging depreciation to various expenditure accounts. The net book value of capital asset retirements is also reported as a credit against capital outlay. The balance in capital outlay expenditures for the year is comprised of the following:

Capital outlay	\$ 1,036,797
Less equipment retirements	-
Less depreciation / depletion	<u>(961,518)</u>
Total, net	<u>\$ 75,279</u>

### Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims. The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads,

# Bay County Road Commission

## Notes to Financial Statements

population and prior claim history of the Road Commission. The Road Commission's exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

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 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 \$46,097 and \$46,619 at December 31, 2021 and 2020, respectively.

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

	<u>2021</u>	<u>2020</u>
Unpaid claims, beginning of year	\$ 46,619	\$ 49,621
Incurred claims (including IBNR)	1,861,778	1,485,964
Claims paid	<u>(1,862,300)</u>	<u>(1,488,966)</u>
Unpaid (prepaid) claims, end of year	46,097	46,619
Less: current portion	<u>(46,097)</u>	<u>(46,619)</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

### **Contingencies**

At times, the Road Commission is named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants periodic audits are required, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

### **Federal Award Expenditures / Single Audit**

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year, Federal aid reported by the Road Commission was \$2,202,190 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. Because the Road Commission expended less than \$750,000 in negotiated projects, a single audit was not required.



## Bay County Road Commission

### General Operating / Road Func

#### Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual

*For the Year Ended December 31, 2021*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Licenses and permits	\$ 115,342	\$ 111,914	\$ 117,094	\$ 5,180
Federal sources				
Surface transportation program (STP)	1,503,623	957,780	2,202,190	1,244,410
State sources				
Michigan transportation funds				
Engineering	10,000	10,000	10,000	-
Urban road	1,934,302	1,945,382	2,010,428	65,046
Allocation	11,765,833	11,772,574	12,156,745	384,171
Other				
Other	1,783,386	1,730,027	755,635	(974,392)
Contributions from local units				
City and Village	2,400,000	1,824,208	1,823,812	(396)
Townships	-	300,000	272,288	(27,712)
Charges for services				
State trunkline maintenance	1,879,000	2,013,206	2,157,660	144,454
State trunkline non-maintenance	2,045	1,653	1,369	(284)
Salvage sales	-	-	12,572	12,572
Interest and rentals	60,000	29,584	34,298	4,714
Other				
Sundry refunds	279	286	309	23
Proceeds from sale of capital assets	6,000	15,400	15,400	-
Other	23,500	37,970	39,477	1,507
<b>Total revenue</b>	<u>\$ 21,483,310</u>	<u>\$ 20,749,984</u>	<u>\$ 21,609,277</u>	<u>\$ 859,293</u>

## Bay County Road Commission

### General Operating / Road Fund

#### Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (continued)

*For the Year Ended December 31, 2021*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Primary Road				
Preservation / structural improvements	\$ 8,605,523	\$ 4,982,750	\$ 5,251,047	\$ 268,297
Maintenance	3,854,577	4,920,518	5,164,033	243,515
Local Road				
Preservation / structural improvements	1,079,717	311,227	314,039	2,812
Maintenance	3,342,254	4,597,673	4,509,017	(88,656)
Total preservation and maintenance	16,882,071	14,812,168	15,238,136	425,968
State trunkline maintenance	1,879,000	2,013,206	2,062,361	49,155
State trunkline non-maintenance	2,045	1,653	1,365	(288)
Administrative (net)	1,017,044	1,012,752	967,693	(45,059)
Equipment (net)	543,057	335,031	414,907	79,876
Capital outlay (net)	(61,990)	(27,754)	75,279	103,033
Debt service	40,000	643,942	618,966	(24,976)
Other	426,028	432,800	466,698	33,898
<b>Total expenditures</b>	<u>20,727,255</u>	<u>19,223,798</u>	<u>19,845,405</u>	<u>621,607</u>
<b>Net change in fund balance</b>	756,055	1,526,186	1,763,872	237,686
Fund balance, beginning of year	<u>5,733,426</u>	<u>5,733,426</u>	<u>5,733,426</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 6,489,481</u></u>	<u><u>\$ 7,259,612</u></u>	<u><u>\$ 7,497,298</u></u>	<u><u>\$ 237,686</u></u>

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
*Last 10 Fiscal Years Ended December 31,*

	<u>2021</u>	<u>2020</u>
<b>Total pension liability</b>		
Service cost	\$ 587,302	\$ 553,506
Interest on total pension liability	2,344,653	2,376,474
Changes of benefit terms	-	-
Differences between expected and actual experience	(319,952)	(281,513)
Changes in assumptions	-	-
Benefit payments	(2,099,067)	(2,090,755)
Changes in proportionate share	(1,009,368)	(524,719)
Other changes	-	-
Net change in total pension liability	<u>(496,432)</u>	<u>32,993</u>
Total pension liability - beginning	34,105,289	34,072,296
Total pension liability - ending	<u>\$ 33,608,857</u>	<u>\$ 34,105,289</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 609,085	\$ 598,845
Contributions - member	222,380	226,673
Net investment income (loss), net	6,198,343	7,878,749
Benefit payments, including refunds of member contributions	(2,099,067)	(2,090,755)
Administrative expenses	(24,834)	(27,944)
Changes in proportionate share	(1,669,236)	(994,163)
Other changes	-	-
Net change in fiduciary net position	<u>3,236,671</u>	<u>5,591,405</u>
Fiduciary net position - beginning	41,493,797	35,902,392
Fiduciary net position - ending	<u>\$ 44,730,468</u>	<u>\$ 41,493,797</u>
<b>Net pension liability (asset) - ending</b>	<u>\$ (11,121,611)</u>	<u>\$ (7,388,508)</u>
Fiduciary net position as a percentage of the total pension liability	133.09%	121.66%
Covered-employee payroll	\$ 5,674,221	\$ 5,321,740
Net pension liability (asset) as percentage of covered-employee payroll	-196.00%	-138.84%

\* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2012 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

*See Notes to Required Supplementary Information*

## Bay County Road Commission

### Required Supplementary Information

#### Schedule of Changes in Net Pension Liability and Related Ratios

*Last 10 Fiscal Years Ended December 31,*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
<b>Total pension liability</b>					
Service cost	\$ 555,494	\$ 564,166	\$ 553,423	\$ 544,163	\$ 1,016,721
Interest on total pension liability	2,333,684	2,388,186	2,335,000	2,249,952	4,094,622
Changes of benefit terms	-	-	41,177	-	-
Differences between expected and actual experience	300,002	(542,842)	(471,179)	-	528,402
Changes in assumptions	-	-	1,097,683	-	-
Benefit payments	(2,055,764)	(2,040,807)	(1,955,208)	(1,847,223)	(3,336,651)
Changes in proportionate share	(1,108,638)	243,696	222,817	(27,407,120)	-
Other changes	-	-	-	13,618	-
Net change in total pension liability	<u>24,778</u>	<u>612,399</u>	<u>1,823,713</u>	<u>(26,446,610)</u>	<u>2,303,094</u>
Total pension liability - beginning	<u>34,047,518</u>	<u>33,435,119</u>	<u>31,611,406</u>	<u>58,058,016</u>	<u>55,754,922</u>
Total pension liability - ending	<u>\$ 34,072,296</u>	<u>\$ 34,047,518</u>	<u>\$ 33,435,119</u>	<u>\$ 31,611,406</u>	<u>\$ 58,058,016</u>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 601,994	\$ 658,746	\$ 587,549	\$ 549,002	\$ 562,787
Contributions - member	220,054	230,047	241,448	216,673	430,756
Net investment income (loss), net	(2,382,521)	6,747,545	2,610,679	253,542	4,912,826
Benefit payments, including refunds of member contributions	(2,055,764)	(2,040,807)	(1,955,208)	(1,847,223)	(3,336,651)
Administrative expenses	(21,701)	(40,039)	(39,430)	(20,213)	(49,872)
Changes in proportionate share	(1,739,601)	(152,962)	(96,066)	(31,048,672)	-
Other changes	-	1,529	1,189,994	-	101,203
Net change in fiduciary net position	<u>(5,377,539)</u>	<u>5,404,059</u>	<u>2,538,966</u>	<u>(31,896,891)</u>	<u>2,621,049</u>
Fiduciary net position - beginning	<u>41,279,931</u>	<u>35,875,872</u>	<u>33,336,906</u>	<u>65,233,797</u>	<u>62,612,748</u>
Fiduciary net position - ending	<u>\$ 35,902,392</u>	<u>\$ 41,279,931</u>	<u>\$ 35,875,872</u>	<u>\$ 33,336,906</u>	<u>\$ 65,233,797</u>
<b>Net pension liability (asset) - ending</b>	<u>\$ (1,830,096)</u>	<u>\$ (7,232,413)</u>	<u>\$ (2,440,753)</u>	<u>\$ (1,725,500)</u>	<u>\$ (7,175,781)</u>
Fiduciary net position as a percentage of the total pension liability	105.37%	121.24%	107.30%	105.46%	112.36%
Covered-employee payroll	\$ 5,443,933	\$ 5,198,779	\$ 5,193,678	\$ 5,101,865	\$ 9,357,020
Net pension liability (asset) as percentage of covered-employee payroll	-33.62%	-139.12%	-46.99%	-33.82%	-76.69%

\* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2012 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

*See Notes to Required Supplementary Information*

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Employer's Net Pension Liability (Asset)**  
*Last 10 Fiscal Years Ended December 31,*

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	<b>2021</b>	<b>2020</b>
Total pension liability	\$ 33,608,857	\$ 34,105,289
Plan net position	44,730,468	41,493,797
Net pension liability (asset)	(11,121,611)	(7,388,508)
Plan net position as a percent of total pension liability	-33.09%	-21.66%
Covered payroll	\$ 5,674,221	\$ 5,321,740
Net pension liability as a percent of covered payroll	-196.00%	-138.84%

\* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2012 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Employer's Net Pension Liability (Asset)**  
*Last 10 Fiscal Years Ended December 31,*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Total pension liability	\$ 34,072,296	\$ 34,047,518	\$ 33,435,119	\$ 31,611,406	\$ 58,058,016
Plan net position	35,902,392	41,279,931	35,875,872	33,336,906	65,233,797
Net pension liability (asset)	(1,830,096)	(7,232,413)	(2,440,753)	(1,725,500)	(7,175,781)
Plan net position as a percent of total pension liability	-5.37%	-21.24%	-7.30%	-5.46%	-12.36%
Covered payroll	\$ 5,443,933	\$ 5,198,779	\$ 5,193,678	\$ 5,101,865	\$ 9,357,020
Net pension liability as a percent of covered payroll	-33.62%	-139.12%	-46.99%	-33.82%	-76.69%

\* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2012 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Employer Contributions**  
*Last 10 Fiscal Years Ended December 31,*

	<b>2021</b>	<b>2020</b>
Actuarially determined contribution	\$ 609,085	\$ 598,845
Contributions in relation to the actuarially determined contribution	609,085	598,845
Contribution deficiency (excess)	\$ -	\$ -
 Covered-employee payroll	 \$ 5,674,221	 \$ 5,321,740
 Contributions as percentage of covered- employee payroll	 10.73%	 11.25%

\* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2012 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Employer Contributions**  
*Last 10 Fiscal Years Ended December 31,*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Actuarially determined contribution	\$ 601,994	\$ 658,746	\$ 587,549	\$ 549,002	\$ 562,787
Contributions in relation to the actuarially determined contribution	<u>601,994</u>	<u>658,746</u>	<u>587,549</u>	<u>549,002</u>	<u>562,787</u>
Contribution deficiency (excess)	<u>\$ -</u>				
 Covered-employee payroll	 \$ 5,443,933	 \$ 5,198,779	 \$ 5,193,678	 \$ 5,101,865	 \$ 9,357,020
 Contributions as percentage of covered- employee payroll	 11.06%	 12.67%	 11.31%	 10.76%	 6.01%

\* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2012 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Changes in Net OPEB Liability and Related Ratios**  
*Last 10 Fiscal Years Ended December 31,*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018*</u>
<b>Total OPEB liability</b>				
Service cost	\$ 241,798	\$ 367,916	\$ 380,085	\$ 463,266
Interest on total pension liability	1,823,544	1,937,211	1,907,317	1,840,604
Changes of benefit terms	-	-	-	13,173
Differences between expected and actual experience	(8,812,357)	(477,358)	(381,766)	(439,440)
Changes in assumptions	920,056	-	(126,680)	-
Benefit payments	(887,945)	(1,047,422)	(1,122,252)	(984,986)
Changes in proportionate share	(2,420,836)	(260,975)	170,638	-
Other changes	-	-	-	-
Net change in total pension liability	<u>(9,135,740)</u>	<u>519,372</u>	<u>827,342</u>	<u>892,617</u>
Total OPEB liability - beginning	28,794,541	28,275,169	27,447,827	26,555,210
Total OPEB liability - ending	<u>\$ 19,658,801</u>	<u>\$ 28,794,541</u>	<u>\$ 28,275,169</u>	<u>\$ 27,447,827</u>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 1,308,220	\$ 1,299,839	\$ 1,377,938	\$ 1,223,943
Contributions - member	-	-	-	-
Net investment income (loss)	1,615,927	1,667,374	(383,447)	860,682
Benefit payments and refunds	(887,945)	(1,047,422)	(1,122,252)	(984,986)
Administrative expenses	(14,917)	(13,045)	(3,011)	(9,507)
Changes in proportionate share	(816,417)	121,958	502,811	-
Other	-	-	420	(173,637)
Net change in fiduciary net position	<u>1,204,868</u>	<u>2,028,704</u>	<u>372,459</u>	<u>916,495</u>
Fiduciary net position - beginning	10,048,222	8,019,518	7,647,059	6,730,564
Fiduciary net position - ending	<u>\$ 11,253,090</u>	<u>\$ 10,048,222</u>	<u>\$ 8,019,518</u>	<u>\$ 7,647,059</u>
<b>Net OPEB liability - ending</b>	<u>\$ 8,405,711</u>	<u>\$ 18,746,319</u>	<u>\$ 20,255,651</u>	<u>\$ 19,800,768</u>
Fiduciary net position as a percentage of the total OPEB liability	57.24%	34.90%	28.36%	27.86%
Covered-employee payroll	\$ 4,669,546	\$ 5,316,786	\$ 6,593,953	\$ 5,635,011
Net OPEB liability as percentage of covered-employee payroll	180.01%	352.59%	307.19%	351.39%

\* GASB Statement No. 75 was implemented as of December 31, 2018. Information from 2012 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Employer's Net OPEB Liability**  
*Last 10 Fiscal Years Ended December 31,*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018*</u>
Total OPEB liability	\$ 19,658,801	\$ 28,794,541	\$ 28,275,169	\$ 27,447,827
Plan net position	11,253,090	10,048,222	8,019,518	7,647,059
Net OPEB liability	8,405,711	18,746,319	20,255,651	19,800,768
Plan net position as a percent of total OPEB liability	57.24%	34.90%	28.36%	27.86%
Covered payroll	\$ 4,669,546	\$ 5,316,786	\$ 6,593,953	\$ 5,635,011
Net OPEB liability as a percent of covered payroll	180.01%	352.59%	307.19%	351.39%

\* GASB Statement No. 75 was implemented as of December 31, 2018. Information from 2012 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

**Bay County Road Commission**  
**Required Supplementary Information**  
**Schedule of Employer Contributions - OPEB**

*Last 10 Fiscal Years Ended December 31,*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018*</u>
Actuarially determined contribution	\$ 3,797,730	\$ 3,798,890	\$ 3,223,518	\$ 3,219,583
Contributions in relation to the actuarially determined contribution	1,308,220	1,299,839	1,377,938	1,223,943
Contribution deficiency (excess)	<u>\$ 2,489,510</u>	<u>\$ 2,499,051</u>	<u>\$ 1,845,580</u>	<u>\$ 1,995,640</u>
Covered-employee payroll	\$ 4,669,546	\$ 5,316,786	\$ 6,593,953	\$ 5,635,011
Contributions as percentage of covered- employee payroll	28.02%	24.45%	20.90%	21.72%

\* GASB Statement No. 75 was implemented as of December 31, 2018. Information from 2012 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

**Bay County Road Commission**  
**Notes to Required Supplementary Information**

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**Budgetary Data**

The Road Commission’s procedures for establishing budgetary data are as follows:

- \* The Road Commission Finance Director prepares a proposed operating budget for the fiscal year commencing January 1st. The proposed operating budget includes identification of expenditures and resources to finance them.
- \* Prior to December 31st, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed budget. The budget is then legally enacted through passage of a resolution adopted by the Board of County Road Commissioners and is placed in the Board minutes.
- \* The Road Commission’s approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act, since the Board of County Road Commissioners must approve amendments to the budget at the activity level.
- \* The budget for the General Operating / Road Fund is adopted on a basis consistent with U.S. GAAP. Budget amounts reported in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.
- \* The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.
- \* 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. Variances at the legal level of control are as disclosed on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.
- \* 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 General Operating / Road Fund had expenditures that exceeded budgeted appropriations at the activity level, which is the Road Commission’s legal level of budgetary control, as follows:

	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
Public works	\$ 19,223,798	\$ 19,845,405	\$ 621,607

Revenues and existing fund balance were sufficient to cover all expenditures in the General Operating / Road Fund.

**Bay County Road Commission**  
**Notes to Required Supplementary Information**

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**Defined Benefit Pension Plan**

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	20 years open
Asset valuation method	5-year smoothed market
Wage inflation	3.25%
Price inflation	2.50%
Salary increases	3.75% to 8.50%, including inflation
Investment rate of return	7.25% (net of administrative and investment expenses)
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016

Other Information:

For the actuarial valuation dated December 31, 2016, the Plan had the following significant assumption changes: Rate of return was reduced to 7.25%, inflation was changed to 2.5%, payroll base increase was changed to 3.25%, lump sum payments for unused sick and vacation were assumed to increase average final compensation by 3.4% to 7.0%, change in mortality tables, and non-investment administration expenses assumed to average 0.5%. For the actuarial valuation dated December 31, 2018, the Road Commission group reported a benefit correction related to the benefit multiplier for new members hired after 1/11/2016.

**Defined Benefit OPEB Plan**

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Market value of assets
Price inflation	2.50%
Wage inflation	3.25%
Salary increases	3.75% to 8.50%, including inflation
Investment rate of return	7.00% (net of OPEB plan investment expenses)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	<i>Healthy Pre-Retirement</i> : The RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. <i>Healthy Post-Retirement</i> : The RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments extended via cubic spline. <i>Disability Retirement</i> : The RP-2014 Disabled Mortality Table, extended via cubic spline These tables are adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2016

Healthcare trend rates	8.25% trend, gradually decreasing to 3.50% in year 9
Aging factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death."

Other Information:

The actuarial assumptions used in the December 31, 2019 valuation were based on the experience study covering the five-year period ending December 31, 2015, issued August 1, 2017.

## **OTHER SUPPLEMENTARY INFORMATION**

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## Bay County Road Commission

### General Operating / Road Fund

#### Schedule of Revenues by Component

*For the Year Ended December 31, 2021*

	<b>Primary Road Funds</b>	<b>Local Road Funds</b>	<b>County Road Commission Funds</b>	<b>Total</b>
<b>Revenues</b>				
Licenses and permits	\$ 38,022	\$ 17,127	\$ 61,945	\$ 117,094
Federal sources				
Surface transportation program (STP)	2,202,190	-	-	2,202,190
State sources				
Michigan transportation funds				
Engineering	7,183	2,817	-	10,000
Urban road	1,635,718	374,710	-	2,010,428
Allocation	8,731,852	3,424,893	-	12,156,745
Other				
Other	755,635	-	-	755,635
Contributions from local units				
Township	-	1,823,812	-	1,823,812
Other	-	272,288	-	272,288
Charges for services				
State trunkline maintenance	-	-	2,157,660	2,157,660
State trunkline non-maintenance	-	-	1,369	1,369
Salvage sales	-	-	12,572	12,572
Interest and rentals	2,824	24,108	7,366	34,298
Other				
Sundry refunds	-	-	309	309
Proceeds from sale of capital assets	-	-	15,400	15,400
Other	-	-	39,477	39,477
<b>Total revenues</b>	<b>\$ 13,373,424</b>	<b>\$ 5,939,755</b>	<b>\$ 2,296,098</b>	<b>\$ 21,609,277</b>

**Bay County Road Commission**  
**General Operating / Road Fund**  
**Schedule of Expenditures by Component**  
*For the Year Ended December 31, 2021*

	<b>Primary Road Funds</b>	<b>Local Road Funds</b>	<b>County Road Commission Funds</b>	<b>Total</b>
<b>Expenditures</b>				
Preservation / Structural Improvements				
Roads	\$ 3,281,672	\$ 279,172	\$ -	\$ 3,560,844
Structures	1,969,375	34,867	-	2,004,242
Maintenance				
Roads	3,966,262	4,088,692	-	8,054,954
Winter maintenance	777,871	287,871	-	1,065,742
Traffic control	419,900	132,454	-	552,354
Total construction and maintenance	10,415,080	4,823,056	-	15,238,136
State trunkline maintenance	-	-	2,062,361	2,062,361
State trunkline non-maintenance	-	-	1,365	1,365
Administrative expense (net)	661,406	306,287	-	967,693
Equipment expense (net)	143,506	176,209	95,192	414,907
Capital outlay (net)	-	-	75,279	75,279
Debt service:				
Principal	550,486	-	-	550,486
Interest	-	-	68,480	68,480
Other:				
Purchase of federal aid - other Counties	432,800	-	-	432,800
Other maintenance	-	-	33,898	33,898
<b>Total expenditures</b>	<b>\$ 12,203,278</b>	<b>\$ 5,305,552</b>	<b>\$ 2,336,575</b>	<b>\$ 19,845,405</b>

**Bay County Road Commission**  
**General Operating / Road Fund**  
**Schedule of Changes in Fund Balance by Component**  
*For the Year Ended December 31, 2021*

	<b>Primary Road Funds</b>	<b>Local Road Funds</b>	<b>County Road Commission Funds</b>	<b>Total</b>
Total revenues	\$ 13,373,424	\$ 5,939,755	\$ 2,296,098	\$ 21,609,277
Total expenditures	12,203,278	5,305,552	2,336,575	19,845,405
<b>Revenues over (under) expenditures</b>	<u>1,170,146</u>	<u>634,203</u>	<u>(40,477)</u>	<u>1,763,872</u>
<b>Fund balance, beginning of year</b>				
As previously stated	1,153,511	4,030,159	549,756	5,733,426
Reclassification adjustments	(681,761)	-	681,761	-
As restated	<u>471,750</u>	<u>4,030,160</u>	<u>1,231,516</u>	<u>5,733,426</u>
<b>Fund balance, end of year</b>	<u>\$ 1,641,896</u>	<u>\$ 4,664,363</u>	<u>\$ 1,191,039</u>	<u>\$ 7,497,298</u>

## **INTERNAL CONTROL AND COMPLIANCE**

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A VETERAN OWNED BUSINESS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the **Bay County Road Commission**, a component unit of Bay County, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the **Bay County Road Commission's** basic financial statements and have issued our report thereon dated May 12, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **Bay County Road Commission's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Bay County Road Commission's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Bay County Road Commission's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, as described as finding 2021-1 in the accompanying Schedule of Findings and Responses that we consider to be a material weakness.

**Report on Compliance and Other Matters**

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

**Road Commission's Response to Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on the *Bay County Road Commission's* response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. *Bay County Road Commission's* response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

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

*Smith + Klaehowitz PC*

***Saginaw, Michigan***  
May 12, 2022

# Bay County Road Commission

## Schedule of Findings and Responses

For the Year Ended December 31, 2021

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Finding 2021-1 – Preparation of Financial Statements in Accordance with U.S. GAAP (*repeated*)

**Criteria:** The Road Commission is required to prepare financial statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP). This is a responsibility of the Road Commission's management. The preparation of financial statements in accordance with U.S. GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition:** As is the case with many smaller and medium-sized entities, the Road Commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with U.S. GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

**Cause:** This condition was caused by the Road Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

**Effect:** As a result of this condition, the Road Commission lacks internal controls over the preparation of financial statements in accordance with U.S. GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible Officials:** The Road Commission has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with U.S. GAAP and determined that it is in the best interests of the Road Commission to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.