

# **Berrien County Road Commission**

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**Financial Report  
with Supplemental Information  
September 28, 2017**

# Berrien County Road Commission

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## Independent Auditor's Report

To the Board of County Commissioners  
Berrien County Road Commission

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the Road Fund of Berrien County Road Commission (the "Road Commission"), a component unit of Berrien County, Michigan as of and for the period ended September 28, 2017 and the related notes to the financial statements, which collectively comprise Berrien County Road Commission's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of County Commissioners  
Berrien County Road Commission

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the Road Fund of Berrien County Road Commission as of September 28, 2017 and the changes in its financial position for the period then ended in accordance with accounting principles generally accepted in the United States of America.

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

As described in Note I to the financial statements, on September 28, 2017, the functions of the Berrien County Road Commission were absorbed into the Berrien County government operations by establishing the Berrien County Road Department. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Road Fund budgetary comparison schedule, and the other required supplemental information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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.

#### ***Other Supplemental Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berrien County Road Commission's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

To the Board of County Commissioners  
Berrien County Road Commission

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

*Plante & Morse, PLLC*

January 31, 2018

# Berrien County Road Commission

## Management's Discussion and Analysis

This section of Berrien County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal period ended September 28, 2017. Please read it in conjunction with the Road Commission's financial statements, which follow this section.

### Financial Highlights

- The Road Commission's total net position increased by approximately \$3.1 million, due primarily to the amount of capital outlay expenditures exceeding the current period's depreciation expense.
- Total revenue of \$22.8 million was in excess of total expenditures of \$19.7 million for the year, resulting in the increase in net position noted above.
- Approximately \$9.9 million was invested in capital assets during the year.
- The obligation for postemployment benefits has been reflected using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 plan members.

### Overview of the Financial Statements

This annual report consists of a series of financial statements. The statement of net position/governmental fund balance sheet presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis and then in total on a full accrual basis. The modified accrual fund-based column presents a short-term view of the Road Commission; it tells us how much is available for future spending. The total full accrual column is intended to present a longer-term view and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of activities/governmental fund revenue, expenditures, and changes in fund balance/net position also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column tells us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding revenue, expenditures, and changes in fund balance.

# Berrien County Road Commission

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the Road Commission as a Whole

**Net Position** - The Road Commission's net position increased during FY 2017 by \$3.1 million, ending the year at \$78.5 million. The table below shows the composition of the Road Commission's net position at September 28, 2017 and at September 30, 2016 and 2015:

	Governmental Activities		
	2017	2016	2015
<b>Assets</b>			
Current and other assets	\$ 9,792,873	\$ 8,199,422	\$ 9,189,918
Capital assets	<u>79,420,385</u>	<u>75,822,285</u>	<u>75,183,341</u>
Total assets	89,213,258	84,021,707	84,373,259
<b>Deferred Outflows of Resources</b>	3,799,273	5,368,364	624,327
<b>Liabilities</b>			
Long-term liabilities outstanding	10,641,670	11,413,633	6,018,016
Other liabilities	<u>2,286,358</u>	<u>2,065,477</u>	<u>1,928,168</u>
Total liabilities	12,928,028	13,479,110	7,946,184
<b>Deferred Inflows of Resources</b>	<u>1,536,721</u>	<u>487,346</u>	<u>11,205</u>
<b>Net Position</b>			
Net investment in capital assets	78,238,740	75,573,852	74,804,908
Restricted for road construction	472,215	472,149	472,116
Unrestricted	<u>(163,173)</u>	<u>(622,386)</u>	<u>1,763,173</u>
Total net position	<u><b>\$ 78,547,782</b></u>	<u><b>\$ 75,423,615</b></u>	<u><b>\$ 77,040,197</b></u>

**Changes in Net Position** - The Road Commission's increase in net position was due primarily to the amount of capital outlay expenditures exceeding the current period's depreciation expense, as approximately \$9.9 million was invested in capital assets during the year, and the depreciate expense calculated on all capital assets amounted to only \$6.3 million.

The Michigan Transportation Fund revenue is a statutory formula that is structured to share various fuel tax and license fees collected by the State of Michigan with cities, road commissions, and the Michigan Department of Transportation. This revenue item is a primary source of revenue for the Road Commission. For 2017, there was an approximately \$2.7 million increase in Michigan Transportation Funds receipts, an approximately \$1 million decrease in federal and other state aid, and approximately a \$2.1 million increase in revenue from local governments. Other revenue increased by approximately \$270,000.

# Berrien County Road Commission

## Management's Discussion and Analysis (Continued)

Expenditures were approximately \$700,000 lower than those of 2016. The decrease in expenses is primarily attributed to the decrease in funds spent on maintenance activities as well as pension expense within administrative activities.

	Governmental Activities		
	2017	2016	2015
<b>Revenues</b>			
State aid - Act 51	\$ 13,797,362	\$ 11,069,508	\$ 10,834,508
Federal/State sources	4,047,232	5,083,370	4,273,140
Revenue from local governments	4,505,577	2,432,825	2,938,785
Other	435,168	164,602	129,700
Total revenue	22,785,339	18,750,305	18,176,133
<b>Expenses</b>			
Maintenance	12,850,553	13,350,605	10,773,770
Administrative	541,921	2,094,647	1,036,381
Depreciation	6,260,075	5,930,704	5,661,224
Equipment rental and interest charges	8,623	(1,009,069)	(106,467)
Total expenses	19,661,172	20,366,887	17,364,908
<b>Change in Net Position</b>	<b>\$ 3,124,167</b>	<b>\$ (1,616,582)</b>	<b>\$ 811,225</b>

### Financial Analysis of the Road Commission's Funds

The Road Fund's fund balance ended the year at approximately \$7.7 million, which is approximately \$1.3 million more than the fund balance in the previous year. Portions of this balance are restricted for anticipated needs in the near future. The Road Commission has approximately \$850,000 classified as nonspendable fund balance for inventory and prepaid expenses and \$472,000 as restricted fund balance for future road construction. The remaining unassigned fund balance is \$6.4 million.

### Road Fund Budgetary Highlights

The Road Commission amended its 2017 budget during the year to reflect changes in budgeted projects and activities that were unknown at the time the original budget was adopted. The final budget for revenue was approximately \$1.3 million less than the original budget, primarily due to less federal and other state revenue, besides those from Act 51 state aid funds. Actual revenue ended the year lower than expected by approximately \$1.2 million, primarily due to the Road Commission receiving less local revenue than anticipated. The final budget for expenditures was approximately \$2 million less than the original budget due to less than anticipated local road preservation and maintenance expenditures. Actual expenditures at the end of the year were approximately \$1.75 million less than the final amended budget, primarily due to the Road Commission spending less on operations and road projects.



# **Berrien County Road Commission**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Assets**

The Road Commission had \$79.4 million in net capital assets at the end of the year, which includes \$61.1 million of infrastructure assets.

### **Departmentalization**

Section 6 of Public Act 283 of 1909 (MCL 224.36(7)) authorizes a county board of commissioners of a county with an appointed board of county road commissioners to transfer the powers, duties, and functions that are otherwise provided by law of that appointed board of county road commissioners to the county board of commissioners if a resolution of such transfer is approved by a majority vote of the county board of commissioners, as so allowed under Section 11 of 1851 Public Act 156 (MCL 46.11).

On September 28, 2017, the Berrien County Board of Commissioners passed a resolution to transfer the powers, duties, and function provided by law for the Berrien County Board of Road Commissioners to the Berrien County Board of Commissioners, effective September 28, 2017. The functions of the Berrien County Road Commission were absorbed into Berrien County government operations by establishing the Berrien County Road Department effective September 28, 2017. Berrien County's financial statements will include the Road Department as a function of primary government on its financial statements in contrast to the Road Commission's inclusion as a discretely presented component unit.

### **Contacting the Road Department's Financial Management**

This financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to our finance director, Berrien County Road Department, 2860 E. Napier Ave, Benton Harbor, MI 49022 or visit our webpage at [www.bcroad.org](http://www.bcroad.org).

# Berrien County Road Commission

## Statement of Net Position/Governmental Fund Balance Sheet September 28, 2017

	Modified Accrual Basis		Statement of Net Position
	Road Fund	Adjustments (Note 2)	
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 5,866,506	\$ -	\$ 5,866,506
Restricted cash - Road construction (Note 3)	472,215	-	472,215
Due from other governmental units	2,610,813	-	2,610,813
Inventory	686,630	-	686,630
Prepaid expense	156,709	-	156,709
Capital assets (Note 4):			
Assets not subject to depreciation	-	15,210,049	15,210,049
Assets subject to depreciation	-	64,210,336	64,210,336
	<u>\$ 9,792,873</u>		
Total assets		79,420,385	89,213,258
<b>Deferred Outflows of Resources - Pensions (Note 6)</b>			
		3,799,273	3,799,273
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,841,848	-	1,841,848
Advances	70,654	-	70,654
Escrow	16,000	-	16,000
Noncurrent liabilities:			
Due within one year:			
Compensated absences (Note 5)	-	76,186	76,186
Current portion of long-term debt (Note 5)	-	281,670	281,670
Due in more than one year:			
Net pension liability (Note 6)	-	9,243,324	9,243,324
Net OPEB obligation (Note 7)	-	498,371	498,371
Long-term debt (Note 5)	-	899,975	899,975
	<u>1,928,502</u>	<u>10,999,526</u>	<u>12,928,028</u>
Total liabilities		10,999,526	12,928,028
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	157,482	(157,482)	-
Deferred inflows related to pensions (Note 6)	-	1,536,721	1,536,721
	<u>157,482</u>	<u>1,379,239</u>	<u>1,536,721</u>
Total deferred inflows of resources		1,379,239	1,536,721
<b>Equity</b>			
Fund balance:			
Nonspendable:			
Inventory	686,630	(686,630)	-
Prepays	156,709	(156,709)	-
Restricted - Road construction	472,215	(472,215)	-
Unassigned	6,391,335	(6,391,335)	-
	<u>7,706,889</u>	<u>(7,706,889)</u>	<u>-</u>
Total fund balance		(7,706,889)	-
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 9,792,873</u>		
<b>Net position:</b>			
Net investment in capital assets		78,238,740	78,238,740
Restricted - Road construction		472,215	472,215
Unrestricted		(163,173)	(163,173)
		<u>78,547,782</u>	<u>78,547,782</u>
Total net position		<u>\$ 78,547,782</u>	<u>\$ 78,547,782</u>

# Berrien County Road Commission

## Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Net Position Period Ended September 28, 2017

	Road Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenue</b>			
State aid - Act 51	\$ 13,797,362	\$ -	\$ 13,797,362
Federal/State sources	4,047,232	-	4,047,232
Revenue from local governments	4,348,095	157,482	4,505,577
Interest, fees, and other sources	342,845	92,323	435,168
	<u>22,535,534</u>	<u>249,805</u>	<u>22,785,339</u>
<b>Expenditures - Current</b>			
Administrative	552,035	(10,114)	541,921
Operations	6,052,130	(1,180,181)	4,871,949
Signs and signals	283,736	-	283,736
Engineering	507,953	(27,783)	480,170
County drain assessment	196,857	-	196,857
Road projects	12,383,058	(8,660,656)	3,722,402
Nondepartmental	2,243,611	1,051,828	3,295,439
Depreciation expense	-	6,260,075	6,260,075
Debt service:			
Principal retirement	143,133	(143,133)	-
Interest	8,623	-	8,623
	<u>22,371,136</u>	<u>(2,709,964)</u>	<u>19,661,172</u>
<b>Other Financing Sources</b>			
Sale of capital assets	102,768	(102,768)	-
Proceeds from debt issuance	1,076,345	(1,076,345)	-
	<u>1,343,511</u>	<u>1,780,656</u>	<u>3,124,167</u>
<b>Net Change in Fund Balance/Net Position</b>	<b>1,343,511</b>	<b>1,780,656</b>	<b>3,124,167</b>
<b>Fund Balance/Net Position - Beginning of period</b>	<b>6,363,378</b>	<b>69,060,237</b>	<b>75,423,615</b>
<b>Fund Balance/Net Position - End of period</b>	<b>\$ 7,706,889</b>	<b>\$ 70,840,893</b>	<b>\$ 78,547,782</b>

# Berrien County Road Commission

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## Notes to Financial Statements September 28, 2017

### Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by Berrien County Road Commission:

#### **Reporting Entity**

Berrien County Road Commission (the "Road Commission") is governed by a five-member Board of County Road Commissioners appointed by the Berrien County Board of Commissioners. The Road Commission's financial statements will be included in the basic financial statements of Berrien County, Michigan as a discretely presented component unit.

Concurrently, with the period ended September 28, 2017, the Berrien County Board of Commissioners (i) transferred the powers, duties, and functions of the Berrien County Board of Road Commissioners to the Berrien County Board of Commissioners, (ii) dissolved the Berrien County Board of Road Commissioners, and (iii) absorbed the functions of the Road Commission into Berrien County government operations by establishing the Berrien County Road Department.

#### **Accounting and Reporting Principles**

The Road Commission follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The individual Road Fund column presents the activity on the modified accrual basis of accounting, as discussed below, which demonstrates accountability for how the current resources have been spent. The government-wide column is presented on the economic resources measurement focus and the full accrual basis of accounting, in order to measure the cost of providing government services and the extent to which constituents have paid the full cost of government services.

On the full accrual basis of accounting, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note I - Summary of Significant Accounting Policies (Continued)

#### Fund Accounting

The Road Commission accounts for its activities in one major governmental fund, the Road Fund. The Road Fund is used to account for all activities of the Road Commission.

#### Basis of Accounting

The Road Fund uses the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the Road Commission has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Road Commission considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state gas and weight tax revenue and revenue related to construction projects and inspection work orders. For revenue sources collected after the period of availability, receivables are recorded along with a "deferred inflow."

#### Specific Balances and Transactions

**Cash and Cash Equivalents** - Cash includes cash on hand, demand deposits, money market accounts, and certificates of deposit. Restricted cash consists of cash held by the Road Commission for use on road construction.

**Due from Other Governments** - Due from other governments consists of amounts due from the Michigan Transportation Fund for state-shared revenue as well as receivables from local townships for their share of construction projects.

**Inventories and Prepaid Items** - Inventories consist principally of road material, salt, signs, and equipment maintenance materials and is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, culverts, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The related revenue is recorded as other contributions. The Road Commission did not capitalize any interest expense in the current year.

Land is not subject to depreciation, road equipment is depreciated using the sum of the years' digits method, and all other capital asset classes are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Lives in Years
Infrastructure	8-50
Buildings and storage bins	25-50
Other equipment	10-20
Road equipment	5-8
Land improvements	10

**Advance Payables** - Advances result when payments are made to the Road Commission by local townships for work to be performed in the future.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the Road Fund financial statements, bond issuances are reported as an "other financing source," as well as bond premiums and discounts. The Road Fund is used to liquidate governmental long-term debt.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide statements report deferred outflows from the difference between projected and actual investment earnings of the pension plan, the changes in assumptions related to economic and demographic factors, and for contributions made to the pension plan subsequent to the plan's period end.

# **Berrien County Road Commission**

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## **Notes to Financial Statements September 28, 2017**

### **Note I - Summary of Significant Accounting Policies (Continued)**

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has two types of items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental fund's balance sheet. The governmental fund reports unavailable revenue from intergovernmental revenue related to road construction projects. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, the government-wide statements report deferred inflows related to the pension plan. These inflows are from the difference between projected and actual experience of the pension plan and from changes in assumptions related to economic and demographic factors.

#### **Net Position Flow Assumption**

Sometimes, the Road Commission will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### **Fund Balance Flow Assumption**

Sometimes, the Road Commission will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

# Berrien County Road Commission

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## Notes to Financial Statements September 28, 2017

### Note I - Summary of Significant Accounting Policies (Continued)

#### Fund Balance Policies

Fund balance of the Road Fund is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Road Commission's highest level of decision-making authority. The Road Commission's Board of County Road Commissioners is the highest level of decision-making authority for the Road Commission that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Road Commission for specific purposes but do not meet the criteria to be classified as committed. The Road Commission's Board of County Road Commissioners has by resolution authorized the Engineering Manager to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Pension** - The Road Commission offers a defined benefit pension plan to its employees through the Berrien County Employees Retirement System. The Road Commission records a net pension liability for the difference between the Road Commission's portion of the total pension liability calculated by the actuary and the Road Commission's portion of the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Road Commission's portion of the Berrien County Employees Retirement System and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



# Berrien County Road Commission

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## Notes to Financial Statements September 28, 2017

### Note I - Summary of Significant Accounting Policies (Continued)

**Other Postemployment Benefit Costs** - The Road Commission offers retiree healthcare benefits to retirees. The Road Commission has elected to calculate the ARC necessary to fund the retiree healthcare obligation using an alternative measurement method permitted by GASB Statement No. 45. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest and “adjustment to the ARC” on the beginning of year underpaid amount, if any.

**Compensated Absences (Vacation and Sick Leave)** - It is the Road Commission's policy to allow employees to accumulate earned but unused vacation pay benefits. Vacation pay is earned by employees based on the length of service with the Road Commission. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the Road Fund only for employee terminations as of year end. The Road Commission does not accrue for unused sick pay benefits.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities

Net position reported in the statement of net position column is different than the fund balance reported in the Road Fund because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

<b>Fund Balance Reported in Governmental Funds</b>	<b>\$ 7,706,889</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	79,420,385
Pension-related deferred outflows and inflows are not current financial resources and are not reported in the funds	2,262,552
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability	(9,243,324)
Receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	157,482
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,181,645)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(76,186)
Net OPEB obligation does not present a claim on current financial resources and is not reported as a fund liability	(498,371)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 78,547,782</u></b>

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the Road Fund because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

**Net Change in Fund Balance - Total Governmental Fund** \$ 1,343,511

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	9,868,620
Depreciation expense	(6,260,075)
Net book value of assets disposed of	(10,445)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	157,482
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Repayment of long-term liabilities is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	143,133
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Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	(1,076,345)
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Change in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment	10,114
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Change in the net OPEB obligation is reported as an expense, but not in the governmental fund	360
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Change in the net pension liability and related deferrals is reported as an expense, but is not reported in the governmental funds since they do not require the use of current financial resources	(1,052,188)
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**Change in Net Position of Governmental Activities** \$ 3,124,167

# Berrien County Road Commission

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## Notes to Financial Statements September 28, 2017

### Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated seven financial institutions for the deposit of its funds, in addition to funds held by Berrien County. The Road Commission follows the investment policy approved by the Board of County Road Commissioners. In accordance with Public Act 196 of 1997, the policy has authorized investment in bonds and securities and other obligations of the United States government, bank accounts and certificates of deposit, limited commercial paper, repurchase agreements limited to United States government investments, and obligations of Michigan or its political subdivisions. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had approximately \$5,700,000 of bank deposits (certificates of deposit, money market, and checking and savings accounts) that were uninsured and uncollateralized. The federal depository insurance coverage pertains to all the deposits of the County of Berrien, Michigan; hence, the specific coverage pertaining to the Road Commission's deposits, if any, is not determinable. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of the FDIC and NCUA insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 4 - Capital Assets

Capital asset activity for the period was as follows:

<b>Governmental Activities</b>	Balance October 1, 2016	Additions	Retirements/ Disposals	Balance September 28, 2017
Capital assets not being depreciated - Land	\$ 14,913,267	\$ 296,782	\$ -	\$ 15,210,049
Capital assets being depreciated:				
Infrastructure	121,235,609	8,363,874	(5,578,304)	124,021,179
Buildings and storage bins	2,815,208	17,287	-	2,832,495
Other equipment	841,346	20,677	(20,220)	841,803
Road equipment	12,400,521	1,170,000	(513,949)	13,056,572
Land improvements	28,540	-	-	28,540
Subtotal	137,321,224	9,571,838	(6,112,473)	140,780,589
Accumulated depreciation:				
Infrastructure	63,055,395	5,434,381	(5,578,304)	62,911,472
Buildings and storage bins	2,151,066	67,313	-	2,218,379
Other equipment	688,643	36,401	(20,220)	704,824
Road equipment	10,499,027	719,126	(503,504)	10,714,649
Land improvements	18,075	2,854	-	20,929
Subtotal	76,412,206	6,260,075	(6,102,028)	76,570,253
Net capital assets being depreciated	60,909,018	3,311,763	(10,445)	64,210,336
Net capital assets	<u>\$ 75,822,285</u>	<u>\$ 3,608,545</u>	<u>\$ (10,445)</u>	<u>\$ 79,420,385</u>

**Construction Commitments** - At September 28, 2017, the Road Commission had commitments for construction contracts totaling approximately \$637,000.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 5 - Long-term Debt

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Maturity Year	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligations:							
Berrien Township - Notes payable	3% - 6%	2018	\$ 69,800	\$ -	\$ 50,000	\$ 19,800	\$ 19,800
Coloma Township - Notes payable	0%	2017	18,133	-	18,133	-	-
Watervliet Township - Notes payable	0%	2020	160,500	-	75,000	85,500	55,000
Chemical Bank - Notes payable	1.99%	2022	-	1,076,345	-	1,076,345	206,870
Total			248,433	1,076,345	143,133	1,181,645	281,670
Other long-term obligations:							
Accumulated compensated absences			86,300	-	10,114	76,186	76,186
Obligation for retiree healthcare benefits			498,731	-	360	498,371	-
Total governmental activities			\$ 833,464	\$ 1,076,345	\$ 153,607	\$ 1,756,202	\$ 357,856

The annual principal and interest requirements to service all debt outstanding as of September 28, 2017 (excluding liabilities for compensated absences and obligation for retiree healthcare benefits) are as follows. Note that while the balances are reported as of September 28, 2017, the future payment schedule is based on the fiscal years ending September 30.

Fiscal Year Ending September 30	Principal	Interest	Amount
2018	\$ 281,670	\$ 49,561	\$ 331,231
2019	235,987	28,991	264,978
2020	220,685	10,963	231,648
2021	219,468	6,638	226,106
2022	223,835	2,227	226,062
Total	\$ 1,181,645	\$ 98,380	\$ 1,280,025

### Note 6 - Agent Defined Benefit Pension Plan Description

**Plan Description** - The Road Commission participates in the Berrien County Employees Retirement Plan (the "Plan"), an agent multiple-employer defined benefit pension plan administered by the County of Berrien, Michigan that covers all full-time employees of the Road Commission. The Plan issues a publicly available financial report that includes financial statements and required supplemental information for the Plan. That report may be obtained in writing to the County of Berrien, Michigan at the Berrien County Courthouse, 811 Port Street, St. Joseph, Michigan 49085.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 6 - Agent Defined Benefit Pension Plan Description (Continued)

**Benefits Provided** - The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The Berrien County Board of Commissioners establishes and amends the benefit provisions of the participants in the Plan.

Retirement benefits for employees are calculated as 2.0 percent of the employee's final average earnings (highest five consecutive years) times the employee's years of service. Normal retirement age is 60 with eight years of service or age plus years of service greater than or equal to 80. Early retirement is at age 55 with eight years of service, or 25 years of service regardless of age. Vesting period is eight years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but actuarially reduced for commencement before regular retirement age. Death benefits equal the same monthly retirement income that would have been payable if the member had retired the day preceding his or her death and elected the joint and 50 percent survivor option. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms do not provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date.

**Employees Covered by Benefit Terms** - At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	75
Inactive plan members entitled to, but not yet receiving benefits	6
Active plan members	<u>67</u>
Total employees covered by the Plan	<u>148</u>

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Plan retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the plan retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 6 - Agent Defined Benefit Pension Plan Description (Continued)

For the period ended September 28, 2017, the average active employee contribution rate was 6.0 percent of annual pay, and the Road Commission's average contribution rate was 17.39 percent of annual payroll from October 1, 2016 through December 31, 2016 and 17.73 percent of annual payroll from January 1, 2017 through September 28, 2017.

#### Net Pension Liability

The net pension liability reported at September 28, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2015</b>	\$ 22,111,112	\$ 11,301,510	\$ 10,809,602
Service cost	428,457	-	428,457
Interest	1,328,481	-	1,328,481
Changes in benefits	8,640	-	8,640
Differences between expected and actual experience	(91,488)	-	(91,488)
Changes in assumptions	(1,490,731)	-	(1,490,731)
Contributions - Employer	-	650,827	(650,827)
Contributions - Employee	-	204,861	(204,861)
Net investment income	-	898,509	(898,509)
Benefit payments, including refunds	(1,307,128)	(1,307,128)	-
Administrative expenses	-	(4,560)	4,560
Net changes	(1,123,769)	442,509	(1,566,278)
<b>Balance at December 31, 2016</b>	<b>\$ 20,987,343</b>	<b>\$ 11,744,019</b>	<b>\$ 9,243,324</b>



# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 6 - Agent Defined Benefit Pension Plan Description (Continued)

**Assumption Changes** - Since the December 31, 2015 measurement date, the following actuarial assumptions have changed:

- Long-term municipal bond rate from 3.57 percent to 3.78 percent

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

For the period ended September 28, 2017, the Road Commission recognized pension expense of \$1,621,231. At September 28, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (410,882)
Changes in assumptions	2,740,143	(1,125,839)
Net difference between projected and actual earnings on pension plan investments	647,224	-
Employer contributions to the plan subsequent to the measurement date	411,906	-
Total	<u>\$ 3,799,273</u>	<u>\$ (1,536,721)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the Plan made subsequent to the measurement date of \$411,906, which will impact the net pension liability in fiscal year 2018, rather than pension expense. Note that while the net pension liability is reported as of September 28, 2017, the future deferral schedule is based on fiscal years ending September 30.

Fiscal Years Ending September 30	Amount
2018	\$ 886,466
2019	886,466
2020	129,499
2021	(47,892)
2022	(1,219)
Thereafter	(2,674)

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 6 - Agent Defined Benefit Pension Plan Description (Continued)

**Actuarial Assumptions** - The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 %	
Salary increases	3.55-6.25 %	Including inflation
Investment rate of return	7.50 %	Net of pension plan investment expense, including inflation

Mortality rates were based on the fully generational RP-2014 Healthy Annuitant Tables after adjustment to the base year 2006 for males and females with MP-2015 mortality improvement scales. The margin for future mortality improvement included the MP-2015 mortality improvement scales.

**Discount Rate** - The discount rate used to measure the total pension liability is 6.78 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

#### Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees; therefore, the discount rate incorporates a municipal bond rate, which was 3.78 percent. The source of that bond rate was the 20-year AA municipal bond index rate. The long-term expected rate of return was applied to projected benefit payments until 2054 and the municipal bond rate was applied to the remaining periods.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 6 - Agent Defined Benefit Pension Plan Description (Continued)

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2016, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. large-cap equities	35.00 %	5.80 %
U.S. small-cap equities	11.00	7.60
International equities	12.00	6.30
Core fixed income	35.00	0.50
Global real estate	5.00	3.90
Commodities	2.00	3.90

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the Road Commission, calculated using the discount rate of 6.78 percent, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.78 percent) or 1 percentage point higher (7.78 percent) than the current rate:

	1% Decrease (5.78%)	Current Discount Rate (6.78%)	1% Increase (7.78%)
Net pension liability of the Road Commission	\$ 11,609,205	\$ 9,243,324	\$ 7,246,336

# Berrien County Road Commission

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## Notes to Financial Statements September 28, 2017

### **Note 6 - Agent Defined Benefit Pension Plan Description (Continued)**

**Pension Plan Fiduciary Net Position** - Detailed information about the Plan's fiduciary net position is available in the County of Berrien, Michigan's separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the Plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are report 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.

### **Note 7 - Other Postemployment Benefits**

**Plan Description** - The Road Commission provides retiree healthcare benefits to eligible employees and their spouses. This is a single-employer defined benefit plan administered by the Road Commission. The benefits are provided under the collective bargaining agreement for union employees and by the road commission resolution for nonunion employees. The plan does not issue a publicly available financial report.

**Funding Policy** - The collective bargaining agreements require a contribution of \$500 per month for married employees and \$270 per month for single employees from retiree age 60 to 65. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). Therefore, the Road Commission has elected not to fund the plan in advance.

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 7 - Other Postemployment Benefits (Continued)

**Funding Progress** - The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 10 years. The following table shows the components of the Road Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation:

Annual required contribution (recommended)	\$ 43,600
Interest on the prior year's net OPEB obligation	19,949
Less adjustment to the annual required contribution	<u>(61,489)</u>
Annual OPEB cost	2,060
Amounts contributed - Payments of current premiums	<u>(2,420)</u>
Decrease in net OPEB obligation	(360)
OPEB obligation - Beginning of period	<u>498,731</u>
OPEB obligation - End of period	<u>\$ 498,371</u>

The annual OPEB costs, the percentage contributed to the Plan, and the net OPEB obligation for the current and two preceding years are as follows:

Period Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
9/28/17	\$ 2,060	117.5 %	\$ 498,371
9/30/16	7,349	59.9	498,731
9/30/15	144,724	6.9	495,787

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll
9/28/17	\$ -	\$ 639,347	\$ 639,347	0.0 %	\$ 3,455,732	18.5 %
9/30/16	-	660,703	660,703	0.0	3,690,721	17.9
9/30/15	-	678,781	678,781	0.0	3,287,795	20.6

# Berrien County Road Commission

## Notes to Financial Statements September 28, 2017

### Note 7 - Other Postemployment Benefits (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement Age for Active Employees* - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

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

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

*Health Insurance Premiums* - Health insurance premiums of \$500 for married participants and \$270 for single participants were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the Road Commission's short-term investment portfolio, a discount rate of 4.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar contribution on a closed basis. The remaining amortization period at September 28, 2017 was 10 years.

# Berrien County Road Commission

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## Notes to Financial Statements September 28, 2017

### Note 8 - Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

MCRCSIP operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is a member of the County Road Association Self-Insurance Fund (CRASIF) for workers' compensation claims. Member premiums are used to purchase workers' compensation insurance. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

The Road Commission continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

### Note 9 - Budget Information

The annual budget is prepared by the Road Commission's management and adopted by the Board of County Road Commissioners; subsequent amendments are approved by the Board of County Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included in expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a departmental basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of County Road Commissioners is included in the body of the required supplemental information.

# Berrien County Road Commission

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## Notes to Financial Statements September 28, 2017

### Note 9 - Budget Information (Continued)

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the state treasurer's Bulletin for Audits of Local Units of Government in Michigan, dated April 1982, as amended by P.A. 493 of 2000:

- Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- The budget must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures must be authorized by a budget before being incurred.

Pursuant to this requirement, the Road Commission follows these procedures:

- The director submits a proposed operating budget for the fiscal year to the Board of County Road Commissioners before the beginning of the fiscal year. The budget includes proposed expenditures and the means of providing them.
- A public hearing is held to obtain comments.
- Prior to the beginning of the year, the budget and appropriations are legally adopted by the Board of County Road Commissioners.
- Comparison of budget to actual activity is used as a management control device throughout the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented may be amended throughout the year by an official action of the board.



## **Required Supplemental Information**

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# Berrien County Road Commission

## Required Supplemental Information Budgetary Comparison Schedule - Road Fund Period Ended September 28, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State aid - Act 51	\$ 13,000,000	\$ 13,500,000	\$ 13,797,362	\$ 297,362
Federal/State sources	7,187,250	4,650,000	4,047,232	(602,768)
Revenue from local governments	4,756,800	5,475,000	4,348,095	(1,126,905)
Interest, fees, and other sources	98,500	90,000	342,845	252,845
Total revenue	25,042,550	23,715,000	22,535,534	(1,179,466)
<b>Expenditures</b>				
Administrative	636,750	550,000	552,035	(2,035)
Operations	6,602,500	6,350,000	6,052,130	297,870
Signs and signals	231,000	350,000	283,736	66,264
Engineering	531,800	525,000	507,953	17,047
County drain assessment	200,000	197,500	196,857	643
Road projects	15,562,000	13,750,000	12,383,058	1,366,942
Nondepartmental	2,060,000	2,250,000	2,243,611	6,389
Debt service - Principal retirement	320,000	143,500	143,133	367
Debt service - Interest	10,000	9,000	8,623	377
Total expenditures	26,154,050	24,125,000	22,371,136	1,753,864
<b>Excess of Revenue (Under) Over Expenditures</b>	(1,111,500)	(410,000)	164,398	574,398
<b>Other Financing Sources</b>				
Sale of capital assets	85,000	85,000	102,768	17,768
Proceeds from debt issuance	1,125,000	1,125,000	1,076,345	(48,655)
Total other financing sources	1,210,000	1,210,000	1,179,113	(30,887)
<b>Net Change in Fund Balance</b>	98,500	800,000	1,343,511	543,511
<b>Fund Balance - Beginning of period</b>	6,363,378	6,363,378	6,363,378	-
<b>Fund Balance - End of period</b>	<b>\$ 6,461,878</b>	<b>\$ 7,163,378</b>	<b>\$ 7,706,889</b>	<b>\$ 543,511</b>

# Berrien County Road Commission

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## Note to Required Supplemental Information Period Ended September 28, 2017

The budgetary comparison schedule for the Road Fund is presented on the same basis of accounting used in preparing the adopted budget.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the period ended September 28, 2017, the Road Commission incurred the following expenditures that were in excess of amounts budgeted:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Administrative	\$ 550,000	\$ 552,035	\$ (2,035)

# Berrien County Road Commission

## Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios

	Period Ended September 28, 2017	Year Ended September 30, 2016
	<u>                    </u>	<u>                    </u>
<b>Total Pension Liability</b>		
Service cost	\$ 428,457	\$ 318,750
Interest	1,328,481	1,346,154
Changes in benefit terms	8,640	-
Differences between expected and actual experience	(91,488)	(621,699)
Changes in assumptions	(1,490,731)	5,115,441
Benefit payments, including refunds	(1,307,128)	(1,430,180)
	<u>                    </u>	<u>                    </u>
<b>Net Change in Total Pension Liability</b>	(1,123,769)	4,728,466
<b>Total Pension Liability - Beginning of period</b>	<u>22,111,112</u>	<u>17,382,646</u>
<b>Total Pension Liability - End of period</b>	<u><b>\$ 20,987,343</b></u>	<u><b>\$ 22,111,112</b></u>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 650,827	\$ 659,130
Contributions - Member	204,861	188,322
Net investment income	898,509	(114,500)
Administrative expenses	(4,560)	(52,550)
Benefit payments, including refunds	(1,307,128)	(1,430,180)
Miscellaneous other charges	-	(57,562)
	<u>                    </u>	<u>                    </u>
<b>Net Change in Plan Fiduciary Net Position</b>	442,509	(807,340)
<b>Plan Fiduciary Net Position - Beginning of period</b>	<u>11,301,510</u>	<u>12,108,850</u>
<b>Plan Fiduciary Net Position - End of period</b>	<u><b>\$ 11,744,019</b></u>	<u><b>\$ 11,301,510</b></u>
<b>Road Commission's Net Pension Liability - Ending</b>	<u><b>\$ 9,243,324</b></u>	<u><b>\$ 10,809,602</b></u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	55.96 %	51.11 %
<b>Covered Employee Payroll</b>	\$ 3,537,125	\$ 3,280,678
<b>Road Commission's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	261.3 %	329.5 %

# Berrien County Road Commission

## Required Supplemental Information Schedule of Pension Contributions

	Calendar Year 2016	Calendar Year 2015
Actuarially determined contribution	\$ 650,827	\$ 659,130
Contributions in relation to the actuarially determined contribution	650,827	659,130
<b>Contribution Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 3,537,125</b>	<b>\$ 3,280,678</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>18.4 %</b>	<b>20.1 %</b>

### Notes to Schedule of Road Commission Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	30 years closed period for 10 years; switching to a 20 years open period thereafter beginning with fiscal year 2017
Asset valuation method	Five-year smoothed market
Inflation	3.25 percent
Salary increases	3.55 to 6.25 percent, including inflation
Investment rate of return	7.50 percent, net of investment expense
Retirement age	Varies
Mortality	Fully generational RP-2014 Healthy Annuitant Tables after adjustment to the base year 2006 for males and females with MP-2015 mortality improvement scales. The margin for future mortality improvement is included in the MP-2015 mortality improvement scales.
Other information	Changes in benefit provisions were reflected as of December 31, 2016.

# Berrien County Road Commission

## Required Supplemental Information Other Postemployment Benefit Plan Schedule of Funding Progress Period Ended September 28, 2017

The schedule of funding progress for the other postemployment benefit plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
9/28/17	\$ -	\$ 639,347	\$ 639,347	-	\$ 3,455,732	18.5
9/30/16	-	660,703	660,703	-	3,690,721	17.9
9/30/15	-	678,781	678,781	-	3,287,795	20.6

## **Other Supplemental Information**

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# Berrien County Road Commission

## Other Supplemental Information Schedule of Changes in Road Fund Balance Period Ended September 28, 2017

	Primary Road	Local Road	County Road	Total
<b>Total Revenue</b>	\$ 13,435,440	\$ 7,724,530	\$ 2,554,677	\$ 23,714,647
<b>Total Expenditures</b>	<u>11,645,424</u>	<u>9,947,230</u>	<u>778,482</u>	<u>22,371,136</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	1,790,016	(2,222,700)	1,776,195	1,343,511
<b>Interfund Transfer</b>	(2,222,700)	2,222,700	-	-
<b>Fund Balance - Beginning of period</b>	<u>2,454,269</u>	<u>-</u>	<u>3,909,109</u>	<u>6,363,378</u>
<b>Fund Balance - End of period</b>	<u><b>\$ 2,021,585</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 5,685,304</b></u>	<u><b>\$ 7,706,889</b></u>



# Berrien County Road Commission

## Other Supplemental Information Schedule of Road Fund Revenue Period Ended September 28, 2017

	Primary Road	Local Road	County Road	Total
State aid - Act 51:				
Michigan Transportation Fund:				
Engineering	\$ 6,686	\$ 3,314	\$ -	\$ 10,000
Allocation	7,656,770	3,794,374	-	11,451,144
Urban roads	1,589,125	707,964	-	2,297,089
Snow removal	-	39,130	-	39,130
Licenses and permits	-	-	94,234	94,234
Federal/State sources:				
Economic development fund	232,758	-	-	232,758
Surface transportation program	2,442,583	-	-	2,442,583
Bridge	641,974	-	-	641,974
Other	722,416	7,500	-	729,916
Contributions:				
Township	138,148	3,172,248	-	3,310,396
County	-	-	-	-
City and village	-	-	448,319	448,319
Other	-	-	640,464	640,464
Other revenue:				
Interest earned	4,980	-	7,790	12,770
Trunkline maintenance	-	-	6,984	6,984
Trunkline nonmaintenance	-	-	-	-
Salvage sales	-	-	10,218	10,218
Gain on equipment disposal	-	-	102,768	102,768
Installment purchases/leases	-	-	1,076,345	1,076,345
Other	-	-	167,555	167,555
Total revenue	<u>\$ 13,435,440</u>	<u>\$ 7,724,530</u>	<u>\$ 2,554,677</u>	<u>\$ 23,714,647</u>

# Berrien County Road Commission

## Other Supplemental Information Schedule of Road Fund Expenditures Period Ended September 28, 2017

	Primary Road	Local Road	County Road	Total
Primary road:				
Construction/Capacity	\$ -	\$ -	\$ -	\$ -
Heavy maintenance	6,942,472	-	-	6,942,472
Maintenance	4,221,469	-	-	4,221,469
Safety	-	-	-	-
Local road:				
Heavy maintenance	-	3,189,333	-	3,189,333
Maintenance	-	6,373,975	-	6,373,975
Charges for services	-	-	6,984	6,984
Administrative expense - Net	582,340	498,846	-	1,081,186
Net equipment expense	(165,227)	(247,405)	(26,092)	(438,724)
Net capital outlay	-	-	382,270	382,270
Debt service:				
Debt principal payments	-	-	143,133	143,133
Interest expense	-	-	8,623	8,623
Drain assessment	64,370	132,481	-	196,851
Other	-	-	263,564	263,564
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenditures	<b><u>\$ 11,645,424</u></b>	<b><u>\$ 9,947,230</u></b>	<b><u>\$ 778,482</u></b>	<b><u>\$ 22,371,136</u></b>

# Berrien County Road Commission

## Note to Other Supplemental Information Period Ended September 28, 2017

The following is a reconciliation of the analysis of changes in fund balance - Road Fund schedule to the governmental fund (statement of governmental fund revenue, expenditures, and changes in fund balance):

	Road Fund	
	Total	Total
	Revenue	Expenditures
Amounts per governmental fund revenue, expenditures, and changes in fund balance	\$22,535,534	\$22,371,136
Other financing sources	<u>1,179,113</u>	<u>-</u>
Amount per analysis of changes in Road Fund balance	<u>\$23,714,647</u>	<u>\$22,371,136</u>