

Berrien County Road Commission

**Financial Report
with Supplemental Information
September 30, 2015**

Berrien County Road Commission

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Independent Auditor's Report

To the Board of County Road 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 year ended September 30, 2015 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 Road Commissioners
Berrien County Road Commission

Opinion

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 30, 2015 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the basic financial statements, in 2015, Berrien County Road Commission adopted the new accounting guidance of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes accounting and financial reporting standards for defined benefit pension plans provided to the employees of governmental employers through pension plans. 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 Road 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 & Moran, PLLC

March 10, 2016

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 year ended September 30, 2015. 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 decreased by approximately \$3.9 million, due primarily to the adoption of GASB Statement No. 68.
- Total revenue of \$18.18 million exceeded total expenditures for the year of \$17.36 million by \$811,000.
- Approximately \$5.9 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 decreased during 2014 by \$3.9 million ending the year at \$77 million. The table below shows the composition of the Road Commission's net position at September 30, 2015, 2014, and 2013:

	Governmental Activities		
	2015	2014	2013
Assets			
Current and other assets	\$ 9,189,918	\$ 9,116,597	\$ 7,304,400
Capital assets	<u>75,183,341</u>	<u>74,980,801</u>	<u>75,905,518</u>
Total assets	84,373,259	84,097,398	83,209,918
Deferred Outflows of Resources	624,327	-	-
Liabilities			
Long-term liabilities outstanding	6,018,016	849,396	1,207,248
Other liabilities	<u>1,928,168</u>	<u>2,267,948</u>	<u>1,093,173</u>
Total liabilities	7,946,184	3,117,344	2,300,421
Deferred Inflows of Resources	<u>11,205</u>	-	-
Net Position			
Net investment in capital assets	74,804,908	74,317,368	75,027,085
Restricted for road construction	472,116	183,474	183,474
Unrestricted	<u>1,763,173</u>	<u>6,479,212</u>	<u>5,698,938</u>
Total net position	<u>\$ 77,040,197</u>	<u>\$ 80,980,054</u>	<u>\$ 80,909,497</u>

Changes in Net Position - The Road Commission's decrease in net position was due primarily to the adoption of GASB Statement No. 68 during the year, including recording the liability associated with the unfunded pension liability. The 2014 and 2013 columns presented within the management's discussion and analysis do not include any retroactive adjustment for GASB Statement No. 68.

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 2015, there was a \$285,000 increase in Michigan Transportation Funds receipts, an \$807,000 increase in federal and state aid, and a \$135,000 increase in revenue from local governments. Other revenue decreased \$119,000.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Expenditures were approximately \$368,000 higher than those of 2014. The increase in expenses is primarily attributed to the increase in funds spent on administrative activities.

	Governmental Activities		
	2015	2014	2013
Revenue			
State aid - Act 51	\$ 10,834,508	\$ 10,550,039	\$ 10,391,282
Federal/State sources	4,273,140	3,466,000	822,655
Revenue from local governments	2,938,785	2,803,061	2,926,567
Other	129,700	248,377	76,038
Total revenue	18,176,133	17,067,477	14,216,542
Expenses			
Maintenance	10,773,770	10,621,474	9,324,324
Administrative	1,036,381	646,167	912,843
Depreciation	5,661,224	5,958,152	5,178,592
Equipment rental and interest charges	(106,467)	(228,873)	(96,427)
Total expenses	17,364,908	16,996,920	15,319,332
Change in Net Position	\$ 811,225	\$ 70,557	\$ (1,102,790)

Financial Analysis of Road Commission's Funds

The Road Fund's fund balance ended the year at approximately \$7.5 million, which is approximately \$400,000 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 \$1 million 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 \$5.98 million.

Road Fund Budgetary Highlights

The Road Commission amended its 2015 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 more than the original budget, primarily due to more than other state and local government revenue. Actual revenue ended the year lower than expected by approximately \$340,000, primarily due to the Road Commission receiving less other state and local revenue than anticipated. The final budget for expenditures was approximately \$580,000 more than the original budget due to more than anticipated road improvement and maintenance expenditures. Actual expenditures at the end of the year were approximately \$500,000 less than the final amended budget, primarily due to the Road Commission spending less on preservation and structural improvements and routine and preventative maintenance on primary roads.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets

The Road Commission had \$75 million in net capital assets at the end of the year, which includes \$58 million of infrastructure activities.

Economic Factors and Next Year's Budget

The Michigan Transportation Fund (MTF), the repository of fuel taxes and vehicle registration fees collected by the State, is the principal source of road commission funding. The MTF is affected by many issues outside of the control of the Road Commission and includes such items as fuel efficiency, population, and miles driven. Based on the last 12-month MTF revenue collection report by the Department of Treasury, the MTF is slightly higher than the previous year.

After several years of declining MTF, the money to be received from the Michigan Transportation Fund in 2015-2016 is expected to equal that of 2014-2015. Unfortunately, the current MTF is still less than was received in 1999-2000, creating ongoing challenges in maintaining and upgrading the county roads.

Economic and political condition continue to impact crude oil prices which may affect the Road Commission's costs of fuel for operations, asphalt paving prices, and maintenance. Significant cost changes in oil related commodities may result in workload adjustments and changes to projects.

Contacting the Road Commission'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 the managing director, Berrien County Road Commission, 2860 E. Napier Ave, Benton Harbor, MI 49022 or visit our webpage at www.bcroad.org.

Berrien County Road Commission

Statement of Net Position/Governmental Fund Balance Sheet September 30, 2015

	Modified Accrual Basis		Statement of Net Position
	Road Fund	Adjustments	
Assets			
Cash and cash equivalents (Note 3)	\$ 4,406,570	\$ -	\$ 4,406,570
Restricted cash - Road construction (Note 3)	472,116	-	472,116
Due from other governmental units	2,886,000	-	2,886,000
Inventory	840,705	-	840,705
Prepaid expense	178,482	-	178,482
Other current assets	406,045	-	406,045
Capital assets (Note 4):			
Assets not subject to depreciation	-	14,898,895	14,898,895
Assets subject to depreciation	-	60,284,446	60,284,446
	<u>\$ 9,189,918</u>		
Total assets		75,183,341	84,373,259
Deferred Outflows of Resources - Pensions (Note 6)		624,327	624,327
Liabilities			
Accounts payable and accrued liabilities	\$ 1,091,586	-	1,091,586
Advances	613,482	-	613,482
Escrow	16,000	-	16,000
Noncurrent liabilities:			
Due within one year:			
Compensated absences (Note 5)	-	77,100	77,100
Current portion of long-term debt (Note 5)	-	130,000	130,000
Due in more than one year:			
Net pension liability (Note 6)	-	5,273,796	5,273,796
Net OPEB obligation (Note 7)	-	495,787	495,787
Long-term debt (Note 5)	-	248,433	248,433
	<u>1,721,068</u>	<u>6,225,116</u>	<u>7,946,184</u>
Total liabilities		6,225,116	7,946,184
Deferred Inflows of Resources - Pensions (Note 6)		11,205	11,205
Equity			
Fund balance:			
Nonspendable:			
Inventory	840,705	(840,705)	-
Prepays	178,482	(178,482)	-
Restricted - Road construction	472,116	(472,116)	-
Unassigned	5,977,547	(5,977,547)	-
	<u>7,468,850</u>	<u>(7,468,850)</u>	<u>-</u>
Total fund balance			
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 9,189,918</u>		
Net position:			
Net investment in capital assets		74,804,908	74,804,908
Restricted - Road construction		472,116	472,116
Unrestricted		1,763,173	1,763,173
Total net position		<u>\$ 77,040,197</u>	<u>\$ 77,040,197</u>

Berrien County Road Commission

Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Net Position Year Ended September 30, 2015

	Road Fund	Adjustments	Statement of Activities
Revenue			
State aid - Act 51	\$ 10,834,508	\$ -	\$ 10,834,508
Federal/State sources	4,273,140	-	4,273,140
Revenue from local governments	2,938,785	-	2,938,785
Interest, fees, and other sources	142,905	(13,205)	129,700
	<u>18,189,338</u>	<u>(13,205)</u>	<u>18,176,133</u>
Expenditures - Current			
Primary preservation	1,991,325	(1,142,208)	849,117
Primary maintenance	3,634,614	-	3,634,614
Local preservation	3,577,133	(3,577,133)	-
Local maintenance	5,213,849	-	5,213,849
State maintenance	4,135	-	4,135
State nonmaintenance	543,855	-	543,855
Other nonmaintenance	375,098	-	375,098
County drain assessments	153,102	-	153,102
Administrative	1,111,291	(74,910)	1,036,381
Net capital outlay:			
Capital outlay	1,180,002	(1,180,002)	-
Depreciation offset	(385,591)	385,591	-
Equipment expense - Less equipment rental charged to other expenditures	136,836	(261,165)	(124,329)
Depreciation expense	-	5,661,224	5,661,224
Debt service:			
Principal retirement	285,000	(285,000)	-
Interest	17,862	-	17,862
	<u>17,838,511</u>	<u>(473,603)</u>	<u>17,364,908</u>
Other Financing Sources - Sale of fixed assets	<u>22,374</u>	<u>(22,374)</u>	<u>-</u>
Net Change in Fund Balances/Net Position	373,201	438,024	811,225
Fund Balances/Net Position - Beginning of year (as restated, Note 12)	<u>7,095,649</u>	<u>69,133,323</u>	<u>76,228,972</u>
Fund Balances/Net Position - End of year	<u>\$ 7,468,850</u>	<u>\$ 69,571,347</u>	<u>\$ 77,040,197</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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.

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.

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.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

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." The Road Commission has no items that qualify for reporting in this category at September 30, 2015.

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.

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 \$1,000 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 estimated fair market value at the date of donation. The related revenue is recorded as other contributions.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

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 Road Commission has one item that qualifies for reporting in this category, which is the deferred outflow of resources related to contributions made to the defined benefit pension plan subsequent to the plan's year end through the Road Commission's fiscal year end.

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 one item that qualifies for reporting in this category, which is the deferred inflow of resources related to the defined benefit pension plan. The deferred inflow of resources results from two items within the defined benefit pension plan: the difference between projected and actual investment earnings as well as the difference between projected and actual economic and demographic experience during the measurement period.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

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. Further, 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.

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.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

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.

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.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

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 30, 2015

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:

Fund Balance Reported in Governmental Funds \$ 7,468,850

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 75,183,341

Certain pension contributions are reported as deferred outflows of resources in the statement of net position, but are reported as expenses in the funds 624,327

Net pension obligation does not present a claim on current financial resources and is not reported as a fund liability (5,273,796)

Differences between the projected and actual investment earnings and the projected and actual economic and demographic experience within the pension plan are reported as deferred inflows of resources in the statement of net position, but are not reported in the funds (11,205)

Long-term liabilities are not due and payable in the current period and are not reported in the funds (378,433)

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 (77,100)

Net OPEB obligation does not present a claim on current financial resources and is not reported as a fund liability (495,787)

Net Position of Governmental Activities \$ 77,040,197

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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 \$ 373,201

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	5,899,343
Depreciation expense	(5,661,224)
Net book value of assets disposed of	(35,579)

Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	285,000
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Increase 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	(5,100)
---	---------

Change in the net OPEB obligation is reported as an expense, but not in the governmental fund	(134,824)
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Change in the net pension obligation and related deferrals is reported as an expense, but not in the governmental fund	90,408
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Change in Net Position of Governmental Activities \$ 811,225

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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 five banks 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 \$4,600,000 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 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 30, 2015

Note 4 - Capital Assets

Capital asset activity for the fiscal year was as follows:

Governmental Activities	Balance October 1, 2014	Additions	Retirements/ Disposals	Balance September 30, 2015
Capital assets not being depreciated - Land	\$ 14,806,261	\$ 92,634	\$ -	\$ 14,898,895
Capital assets being depreciated:				
Infrastructure	117,200,231	4,626,707	(2,172,738)	119,654,200
Buildings and storage bins	2,648,475	147,540	(2,500)	2,793,515
Other equipment	974,046	75,979	(46,160)	1,003,865
Road equipment	10,705,736	956,483	(353,687)	11,308,532
Land improvements	28,540	-	-	28,540
Subtotal	131,557,028	5,806,709	(2,575,085)	134,788,652
Accumulated depreciation:				
Infrastructure	58,223,812	5,275,633	(2,172,738)	61,326,707
Buildings and storage bins	2,010,137	71,015	(990)	2,080,162
Other equipment	819,583	50,555	(46,160)	823,978
Road equipment	10,316,589	261,167	(319,618)	10,258,138
Land improvements	12,367	2,854	-	15,221
Subtotal	71,382,488	5,661,224	(2,539,506)	74,504,206
Net capital assets being depreciated	60,174,540	145,485	(35,579)	60,284,446
Net capital assets	<u>\$ 74,980,801</u>	<u>\$ 238,119</u>	<u>\$ (35,579)</u>	<u>\$ 75,183,341</u>

Construction Commitments - At year end, the Road Commission had commitments for construction contracts totaling approximately \$1.1 million.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

Note 5 - Long-term Debt

	Interest Rate Ranges	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligations:							
Berrien Township - Notes payable	3% to 6%	2018	\$ 169,800	\$ -	\$ 100,000	\$ 69,800	\$ -
Buchanan Township - Note payable	0%	2016	55,000	-	25,000	30,000	30,000
Coloma Township - Note payable	0%	2017	68,133	-	25,000	43,133	25,000
Watervliet Township - Notes payable	0%	2020	370,500	-	135,000	235,500	75,000
Total			663,433	-	285,000	378,433	130,000
Other long-term obligation:							
Accumulated compensated absences			72,000	5,100	-	77,100	77,100
Obligation for retiree healthcare benefits			360,963	134,824	-	495,787	-
Total governmental activities			\$ 1,096,396	\$ 139,924	\$ 285,000	\$ 951,320	\$ 207,100

The annual principal and interest requirements to service all debt outstanding as of September 30, 2015 (excluding liabilities for compensated absences and obligation for retiree healthcare benefits) are as follows:

Fiscal Years Ending September 30	Principal	Interest	Amount
2016	\$ 130,000	\$ -	\$ 130,000
2017	143,133	-	143,133
2018	74,800	30,200	105,000
2019	25,000	13,788	38,788
2020	5,500	-	5,500
Total	\$ 378,433	\$ 43,988	\$ 422,421

Note 6 - Agent Defined Benefit Pension Plan Description

Plan Description - The Road Commission participates in the Berrien County Employee 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 at the Berrien County Courthouse, 811 Port Street, St. Joseph, Michigan 49085.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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 are payable immediately without an actuarial reduction. 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 employees who leaves service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date, subject to approval. The annual adjustments are 1.0 percent, noncompounding. No cost of living adjustment was granted on January 1, 2015.

Employees Covered by Benefit Terms - At the December 31, 2014 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	77
Inactive plan members entitled to, but not yet receiving benefits	4
Active plan members	<u>65</u>
Total employees covered by the Plan	<u><u>146</u></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 30, 2015

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

For the year ended September 30, 2015, the average active employee contribution rate was 6.0 percent of annual pay and the Road Commission's average contribution rate was 20.10 percent of annual payroll from October 1, 2014 through December 31, 2014 and 19.05 percent of annual payroll from January 1, 2015 through September 30, 2015.

Net Pension Liability

The net pension liability reported at September 30, 2015 was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The December 31, 2014 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
Balance at December 31, 2014	\$ 17,128,486	\$ 11,883,468	\$ 5,245,018
Service cost	288,276	-	288,276
Interest	1,327,829	-	1,327,829
Differences between expected and actual experience	(12,424)	-	(12,424)
Contributions - Employer	-	636,099	(636,099)
Contributions - Employee	-	181,743	(181,743)
Net investment income	-	758,541	(758,541)
Benefit payments, including refunds	(1,349,521)	(1,349,521)	-
Administrative expenses	-	(1,480)	1,480
Net changes	254,160	225,382	28,778
Balance at December 31, 2015	<u>\$ 17,382,646</u>	<u>\$ 12,108,850</u>	<u>\$ 5,273,796</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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

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

For the year ended September 30, 2015, the Road Commission recognized pension expense of \$539,434. At September 30, 2015, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 11,205
Net difference between projected and actual earnings on pension plan investments	136,648	-
Employer contributions to the plan subsequent to the measurement date	487,679	-
Total	<u>\$ 624,327</u>	<u>\$ 11,205</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 \$487,679, which will impact the net pension liability in fiscal year 2016, rather than pension expense.

Years Ending September 30	Amount
2016	\$ 32,943
2017	32,943
2018	32,943
2019	32,943
2020	(1,219)
Thereafter	(5,110)

Actuarial Assumptions - The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0 %
Salary increases	4.0-6.3 % Including inflation
Investment rate of return	8.0 % Net of pension plan investment expense, including inflation

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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

Mortality rates were based on the RP-2000 Mortality Table projected to 2010 set forward two years for males and one year for females. Estimated margins for future mortality improvements of 8 percent for males and 18 percent for females are provided in these tables.

Discount Rate - The discount rate used to measure the total pension liability was 8.0 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 projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on 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, 2014, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. large-cap equities	35 %	5.8 %
U.S. small-cap equities	11	7.6
International equities	12	6.3
Core fixed income	35	0.5
Global real estate	5	3.9
Commodities	2	3.9

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.0 percent, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability of the Road Commission	\$ 6,897,112	\$ 5,273,796	\$ 3,864,998

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 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 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 30, 2015

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)	\$ 178,833
Interest on the prior year's net OPEB obligation	14,439
Less adjustment to the annual required contribution	<u>(48,548)</u>
Annual OPEB cost	144,724
Amounts contributed - Payments of current premiums	<u>(9,900)</u>
Increase in net OPEB obligation	134,824
OPEB obligation - Beginning of year	<u>360,963</u>
OPEB obligation - End of year	<u>\$ 495,787</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:

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
9/30/15	\$ 144,724	6.9 %	\$ 495,787
9/30/14	80,883	18.6	360,963
9/30/13	77,515	27.4	543,815

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
9/30/15	\$ -	\$ 678,781	\$ 678,781	0.0 %	\$ 3,287,795	20.6 %
9/30/14	-	563,782	563,782	0.0	3,186,542	17.7
9/30/13	-	584,630	584,630	0.0	2,716,714	21.5

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The following simplifying assumptions were made:

Retirement Age 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 - Non-group-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 30, 2015 was 10 years.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

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 an activity 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

Notes to Financial Statements September 30, 2015

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.

Note 10 - Contingencies

During the fiscal year ended September 30, 2013, the Road Commission was notified by the U.S. Department of Transportation Auditor General of its intent to review federal project dollars. The review is currently underway. While management anticipates a clean review, the outcome, if negative, could result in the potential payback of a portion of federal dollars received.

Berrien County Road Commission

Notes to Financial Statements September 30, 2015

Note 11 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the Road Commission's fiscal year ending September 30, 2016.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Road Commission to recognize on the face of the financial statements its net OPEB liability related to its commitment to contribute to qualifying retiree health insurance premiums. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the fiscal year ending September 30, 2018.

Note 12 - Change in Accounting

During the current year, the Road Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the government-wide statements now include a liability for our unfunded legacy costs. Some of the changes in this net pension liability will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to the pension note (Note 6) for further details. This change does not impact the Road Fund.

As a result of implementing this statement, the beginning net position in the government-wide statements was restated to \$76,228,972 (reduction of \$4,751,082).

Required Supplemental Information

Berrien County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State aid - Act 51	\$ 12,037,000	\$ 10,830,540	\$ 10,834,508	\$ 3,968
Federal/State sources	2,614,800	4,418,997	4,273,140	(145,857)
Revenue from local governments	2,472,600	3,177,284	2,938,785	(238,499)
Interest, fees, and other sources	84,000	101,098	142,905	41,807
Total revenue	<u>17,208,400</u>	<u>18,527,919</u>	<u>18,189,338</u>	<u>(338,581)</u>
Expenditures				
Primary preservation	2,915,300	2,838,712	1,991,325	847,387
Primary maintenance	5,056,500	3,552,347	3,634,614	(82,267)
Local preservation	2,462,000	4,306,673	3,577,133	729,540
Local maintenance	4,637,000	4,901,326	5,213,849	(312,523)
State maintenance	7,500	4,135	4,135	-
State nonmaintenance	-	627,078	543,855	83,223
Other nonmaintenance	-	40,928	375,098	(334,170)
County drain assessments	121,000	153,102	153,102	-
Administrative	1,390,000	1,049,038	1,111,291	(62,253)
Net capital outlay:				
Capital outlay	1,209,500	1,176,859	1,180,002	(3,143)
Depreciation offset	(479,700)	(341,146)	(385,591)	44,445
Equipment expense - Less equipment rental charged to other expenditures	210,000	(220,620)	136,836	(357,456)
Debt service - Principal retirement	215,000	235,000	285,000	(50,000)
Interest/Fees	10,500	12,352	17,862	(5,510)
Total expenditures	<u>17,754,600</u>	<u>18,335,784</u>	<u>17,838,511</u>	<u>497,273</u>
Excess of Revenue (Under) Over Expenditures	(546,200)	192,135	350,827	158,692
Other Financing Sources -				
Sale of fixed assets	12,000	9,770	22,374	12,604
Net Change in Fund Balance	(534,200)	201,905	373,201	171,296
Fund Balance - Beginning of year	<u>7,095,649</u>	<u>7,095,649</u>	<u>7,095,649</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 6,561,449</u>	<u>\$ 7,297,554</u>	<u>\$ 7,468,850</u>	<u>\$ 171,296</u>

Berrien County Road Commission

Note to Required Supplemental Information Year Ended September 30, 2015

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 year ended September 30, 2015, the Road Commission incurred the following expenditures that were in excess of amounts budgeted:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary maintenance	\$ 3,552,347	\$ 3,634,614	\$ (82,267)
Local maintenance	4,901,326	5,213,849	(312,523)
Other nonmaintenance	40,928	375,098	(334,170)
Administrative	1,049,038	1,111,291	(62,253)
Capital outlay	1,176,859	1,180,002	(3,143)
Debt service - Principal retirement	235,000	285,000	(50,000)
Interest/Fees	12,352	17,862	(5,510)

Berrien County Road Commission

Required Supplemental Information Schedule of Changes in the Road Commission Net Pension Liability and Related Ratios Year Ended September 30, 2015

	<u>2015</u>
Total Pension Liability	
Service cost	\$ 288,276
Interest	1,327,829
Differences between expected and actual experience	(12,424)
Benefit payments, including refunds	<u>(1,349,521)</u>
Net Change in Total Pension Liability	254,160
Total Pension Liability - Beginning of year	<u>17,128,486</u>
Total Pension Liability - End of year	<u>\$ 17,382,646</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 636,099
Contributions - Member	181,743
Net investment income	758,541
Administrative expenses	(1,480)
Benefit payments, including refunds	<u>(1,349,521)</u>
Net Change in Plan Fiduciary Net Position	225,382
Plan Fiduciary Net Position - Beginning of year	<u>11,883,468</u>
Plan Fiduciary Net Position - End of year	<u>\$ 12,108,850</u>
Road Commission's Net Pension Liability - Ending	<u>\$ 5,273,796</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	69.66 %
Covered Employee Payroll	\$ 3,229,484
Road Commission's Net Pension Liability as a Percentage of Covered Employee Payroll	163.3 %

Berrien County Road Commission

Required Supplemental Information Schedule of Road Commission Contributions

	Calendar Year 2014
Actuarially determined contribution	\$ 636,099
Contributions in relation to the actuarially determined contribution	636,099
Contribution Deficiency	\$ -
Covered Employee Payroll	\$ 3,229,484
Contributions as a Percentage of Covered Employee Payroll	19.7 %

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 actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	20 years perpetual
Asset valuation method	Five-year smoothed market
Inflation	4.0 percent
Salary increases	4.0 to 6.3 percent
Investment rate of return	8.0 percent
Retirement age	Varies
Mortality	RP-2000 Combined Mortality Table projected to 2010 set forward two years for males and one year for females
Other information	None

Berrien County Road Commission

Required Supplemental Information Other Postemployment Benefit Plan Schedule of Funding Progress Year Ended September 30, 2015

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
9/30/15	\$ -	\$ 678,781	\$ 678,781	-	\$ 3,287,795	20.6
9/30/14	-	563,782	563,782	-	3,186,542	17.7
9/30/13	-	584,630	584,630	-	2,716,714	21.5

Other Supplemental Information

Berrien County Road Commission

Other Supplemental Information Schedule of Changes in Road Fund Balance Year Ended September 30, 2015

	Primary Road	Local Road	County Road	Total
Total Revenue	\$ 10,381,260	\$ 6,961,700	\$ 868,752	\$ 18,211,712
Total Expenditures	<u>6,818,512</u>	<u>9,672,178</u>	<u>1,347,821</u>	<u>17,838,511</u>
Excess of Revenue Over (Under) Expenditures	3,562,748	(2,710,478)	(479,069)	373,201
Interfund Transfer	(2,710,478)	2,710,478	-	-
Fund Balance - Beginning of year	<u>2,218,242</u>	<u>-</u>	<u>4,877,407</u>	<u>7,095,649</u>
Fund Balance - End of year	<u>\$ 3,070,512</u>	<u>\$ -</u>	<u>\$ 4,398,338</u>	<u>\$ 7,468,850</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Revenue Year Ended September 30, 2015

	Primary Road	Local Road	County Road	Total
State aid - Act 51:				
Michigan Transportation Fund:				
Engineering	\$ 6,785	\$ 3,215	\$ -	\$ 10,000
Allocation	6,090,442	2,922,626	-	9,013,068
Urban roads	1,227,503	547,173	-	1,774,676
Snow removal	-	36,765	-	36,765
Federal/State sources:				
Economic development fund	881,294	-	-	881,294
Surface transportation program	652,729	-	-	652,729
D Funds	-	-	-	-
Bridge	-	760,396	-	760,396
Other	1,394,569	-	-	1,394,569
Contributions:				
Township	127,871	2,691,525	-	2,819,396
City and village	-	-	36,497	36,497
Other	-	-	82,892	82,892
Other revenue:				
Interest earned	67	-	147	214
Trunkline maintenance	-	-	4,135	4,135
Trunkline nonmaintenance	-	-	584,151	584,151
Salvage sales	-	-	17,407	17,407
Gain on equipment disposal	-	-	22,374	22,374
Other	-	-	121,149	121,149
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	<u>\$ 10,381,260</u>	<u>\$ 6,961,700</u>	<u>\$ 868,752</u>	<u>\$ 18,211,712</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Expenditures Year Ended September 30, 2015

	Primary Road	Local Road	County Road	Total
Primary road:				
Construction/Capacity	\$ 10,226	\$ 173,598	\$ -	\$ 183,824
Heavy maintenance	1,981,099	-	-	1,981,099
Maintenance	3,634,614	-	-	3,634,614
Safety	-	-	-	-
Local road:				
Heavy maintenance	-	3,403,535	-	3,403,535
Maintenance	-	5,213,849	-	5,213,849
Charges for services	-	-	547,990	547,990
Administrative expense - Net	433,663	677,628	-	1,111,291
Net equipment expense	57,243	74,173	5,420	136,836
Net capital outlay	-	-	794,411	794,411
Debt service:				
Debt principal payments	285,000	-	-	285,000
Interest expense	17,862	-	-	17,862
Drain assessment	76,551	76,551	-	153,102
Other	322,254	-	52,844	375,098
	<u>322,254</u>	<u>-</u>	<u>52,844</u>	<u>375,098</u>
Total expenditures	<u>\$ 6,818,512</u>	<u>\$ 9,619,334</u>	<u>\$ 1,400,665</u>	<u>\$ 17,838,511</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Administrative Expenditures Year Ended September 30, 2015

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Office salaries and wages	\$ -	\$ 377,863	\$ -
Administrative leave	-	31,040	-
Fringe benefits	-	318,379	-
Postage	-	3,536	-
Office supplies	-	16,845	-
Dues and subscriptions	-	18,751	-
Professional services	-	150,113	-
Education	-	5,924	-
Communication	-	26,715	-
Travel and mileage	-	6,776	-
Advertising	-	5,741	-
Building repair/maintenance	-	17,620	-
Insurance	-	58,855	-
Depreciation	-	38,742	-
Miscellaneous	-	34,391	-
Total administrative expenditures	<u>\$ 1,049,038</u>	<u>\$ 1,111,291</u>	<u>\$ (62,253)</u>

Berrien County Road Commission

Note to Other Supplemental Information Year Ended September 30, 2015

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 Revenue	Total Expenditures
Amounts per governmental fund revenue, expenditures, and changes in fund balance	\$ 18,189,338	\$ 17,838,511
Other financing sources - Sale of fixed assets	22,374	
Project performed on behalf of another governmental unit	-	-
Amount per analysis of changes in Road Fund balance	<u>\$ 18,211,712</u>	<u>\$ 17,838,511</u>