

BAY COUNTY ROAD COMMISSION

(A Component Unit of Bay County, Michigan)

Financial Statements

For the Year Ended December 31, 2023



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Bay County Road Commission

(A Component Unit of Bay County)

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Bay County Road Commission***, a component unit of Bay County, Michigan, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the ***Bay County Road Commission's*** basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the ***Bay County Road Commission***, as of December 31, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the ***Bay County Road Commission*** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the ***Bay County Road Commission's*** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the *Bay County Road Commission's* internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the *Bay County Road Commission's* ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4-8), budgetary comparison information (pages 32-33), schedules related to the defined benefit pension plan (pages 34-39) and schedules related to the other postemployment benefits plan (pages 40-42) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Bay County Road Commission's* basic financial statements. The other supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2024, on our consideration of the ***Bay County Road Commission's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ***Bay County Road Commission's*** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***Bay County Road Commission's*** internal control over financial reporting and compliance.

Smith + Klaehowitz PC

Saginaw, Michigan

May 8, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bay County Road Commission

Management's Discussion and Analysis

As management of the Bay County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2023. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

Governmental Fund Financial Statements

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

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

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

Bay County Road Commission

Management's Discussion and Analysis

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 13-31 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted above net position may serve over time as a useful indicator of the Road Commission's financial position. As shown on the table below, the Road Commission's assets and deferred outflows exceeded liabilities and deferred inflows by \$115,102,384 at the end of the year.

Net position is separated into three major components, net investment in capital assets of \$106,573,762 restricted net position of \$3,545,561 and unrestricted net position of \$4,983,061. The investment in capital assets reflects the Road Commission's investment in capital assets (i.e., land, infrastructure, buildings, vehicles and equipment), less all related debt issued to acquire those assets that are still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net position reflects the Road Commission's proportionate share of the net pension asset in the Bay County Employee's Retirement System. These assets, net of liabilities, are held in a trust and are not considered available to the Road Commission, except to satisfy pension obligations to retirees. The remaining balance of unrestricted net position / (deficit) represents the remaining amount may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the year, the Road Commission reported a positive balance in net position invested in capital assets and restricted net position and a negative balance in unrestricted net position. The deficit situation mainly results from implementing GASB statement number 75 in a prior year, which requires the recording of a net OPEB liability (including deferred inflows and outflows of resources) of over \$9 million on the Statement of Net Position in the current year.

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

	<u>2023</u>	<u>2022</u>
Assets –		
Current and other unrestricted assets	\$ 11,016,240	\$ 10,362,393
Capital and other long-term assets	<u>111,190,163</u>	<u>121,657,607</u>
Total assets	<u>122,206,403</u>	<u>132,020,000</u>
Deferred outflows of resources	<u>11,256,933</u>	<u>4,839,597</u>
Liabilities –		
Current liabilities	2,558,892	2,851,795
Long-term liabilities	<u>5,672,330</u>	<u>3,720,285</u>
Total liabilities	<u>8,231,222</u>	<u>6,572,080</u>
Deferred inflows of resources	<u>10,129,730</u>	<u>21,070,463</u>

Bay County Road Commission

Management's Discussion and Analysis

	<u>2023</u>	<u>2022</u>
Net position –		
Net investment in capital assets	\$ 106,573,762	\$ 104,983,691
Restricted for pension benefits	3,545,561	15,093,281
Unrestricted (deficit)	<u>4,983,061</u>	<u>(10,859,918)</u>
Total net position	<u>\$ 115,102,384</u>	<u>\$ 109,217,054</u>

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

	<u>2023</u>	<u>2022</u>
Revenues –		
Charges for services	\$ 4,256,926	\$ 5,333,877
Operating grants and contributions	14,993,195	14,331,756
Capital grants and contributions	3,297,786	6,112,710
General revenue	<u>374,891</u>	<u>(159,279)</u>
Total	22,922,798	25,619,064
Expenses –		
Public works and debt services	<u>17,037,468</u>	<u>15,057,883</u>
Change in net position	<u>\$ 5,885,330</u>	<u>\$ 10,561,181</u>

Financial Analysis of Governmental Fund Financial Statements

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

For the year ended December 31, 2023, the fund balance of the Road Commission increased by \$946,750 to \$8,457,348. Of this amount, \$1,349,197 is not spendable (prepaid items and inventory) and \$7,108,151 is restricted because it may only be used for operations of the Road Commission and to finance future construction and maintenance projects on the County's road and bridge system.

Total revenues were \$22,922,798, a decrease of \$2,696,266 as compared to the prior year. This was primarily the result of decreases in charges to local units for non-recurring road projects. Total expenditures of \$21,976,048 decreased \$3,629,716 over the prior year, mainly as a result of decreased activity for road improvement projects.

BUDGETARY HIGHLIGHTS

The Road Commission amended its annual budget to reflect status changes in planned expenditures for preservation and maintenance, State trunkline maintenance projects, administration, equipment and capital outlay. The final revenue budget was \$148,946 less than

Bay County Road Commission

Management's Discussion and Analysis

the original budget due to changes in projections of several sources, including Federal and State sources, contributions from local units and State trunkline maintenance. The final expenditure budget was \$926,849 less than the original budget due mainly to changes in projections for preservation and maintenance expenditures, State trunkline maintenance, equipment and capital outlay. The actual revenues were \$270,554 more than the amended budget and the actual expenditures were \$278,512 less than the amended budget. This situation was due mainly to a combination of lower than projected costs for road projects and higher than projected costs for equipment operations and capital outlay.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission had \$107,545,418 in net capital assets at the end of the year, a net increase of \$1,050,785. The reason for the increase from the previous year is the result of capital outlay and the capitalization of road and bridge projects funded by Federal, State and local sources, net of depreciation and disposals. A summary of capital assets net of accumulated depreciation at year-end in comparison to the previous year is as follows:

	<u>2023</u>	<u>2022</u>
Nondepreciable capital assets	\$ 37,491,998	\$ 37,348,905
Buildings and improvements, net	747,280	722,835
Equipment, net	1,737,787	1,306,277
Infrastructure, net	<u>67,568,353</u>	<u>67,116,616</u>
Total, net	<u>\$107,545,418</u>	<u>\$ 106,494,633</u>

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

Long-term Liabilities – The Road Commission recorded liabilities of \$878,894 for accrued compensated absences and \$971,656 for installment purchase agreements. The Road Commission made scheduled debt service payments for principal of \$539,286 and \$38,787 for interest. Additional information on the Road Commission's long-term liabilities may be found in Note C on page 20 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of County Road Commissioners, County of Bay (BCRC) considers many factors prior to adopting an annual budget. For fiscal year 2023, line item budgets were assigned to Primary and Local road categories, including; Routine Maintenance, Snow & Ice Control and Traffic Control. Capital outlay and facility improvement needs for 2023 were determined and associated costs added to the budget. Administrative and operational costs were calculated and included.

A review of all 2023 Federal and State-Aid construction projects requiring BCRC matching dollars was completed. These projects were budgeted first. By utilizing Federal and State transportation funding and grant programs, the BCRC was able to secure almost \$3.4 million in additional revenue, enabling us to complete additional construction projects and meet the BCRC's Road and Bridge Asset Management Plan obligation. Revenue the BCRC expects to

Bay County Road Commission

Management's Discussion and Analysis

receive by providing labor and equipment for township projects was calculated and included. Any projects receiving funding from other sources were then added. Any Michigan Transportation Fund (MTF) dollars not yet committed to other line items were assigned to projects identified in the BCRC's 10-Year Road Asset Management Plan.

Increases in BCRC MTF are currently based on an inflationary factor, which was used to calculate the 2023 budget. High inflation, elevated costs for materials and material shortages was a factor in the preparation of the 2023 budget, with the BCRC favoring a conservative position when calculating anticipated MTF revenue for 2023. Not knowing when or if the MTF revenue would meet projected expectations, the 2023 budget had safeguards in place, should MTF revenues fall short of those projected.

This year's edition of the BCRC audit will be the last mention of exclusion of receipt of any American Rescue Plan Act (ARPA) funds, as a result of the COVID pandemic. The BCRC has accepted the fact, the \$1.0 million loss will not be replaced. Efforts over the past three years have focused on "playing catch-up", as best we can.

Hating to lose relevant historical information, the following is included for just that reason. *"The reader must understand, stagnant funding levels persisted from 2006 through 2016, putting many major infrastructure improvements on hold. Increased revenue began in 2017, but cannot make up for the revenue lost over those 11 years."*

BCRC staff assembled, MDOT approved and the Board adopted a 10-Year Road, Bridge and Storm Water Asset Management Plan. The plan outlines the type of work and associated costs needed each year, to maintain the road, bridge and associated drainage systems in an acceptable state of repair. The BCRC has dedicated itself to diligently follow this document, finding new and innovative ways to complete the work slated for upcoming fiscal years. Partnerships have been forged with other public agencies; Bay City, Auburn, Essexville, the Townships, MDOT, Drain Commissioner, Bay Future, with academia; Michigan Technological and Saginaw Valley State University, with private sector companies; Entech, Inc., Pavement Solutions, Inc. and more.

The BCRC staff's dedication to identifying cost-effective ways to utilize the public dollar, in the best interest of Bay County's residents and the motoring public, is noteworthy.

CONTACTING THE ROAD COMMISSION'S MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Bay County Road Commission at 989-686-4610 or visit the Administration office at 2600 E. Beaver Road, Kawkawlin, MI 48631.



BASIC FINANCIAL STATEMENTS

Bay County Road Commission

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

December 31, 2023

	General Operating / Road Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 295,832	\$ -	\$ 295,832
Investments	6,366,182	-	6,366,182
Receivables			
Due from other governmental units	2,982,333	-	2,982,333
Due from other sources	161	-	161
Interest receivable	22,535	-	22,535
Inventories			
Equipment material and parts	330,089	-	330,089
Road materials	925,675	-	925,675
Prepaid items	93,433	99,184	192,617
Net pension asset	-	3,545,561	3,545,561
Capital assets, net			
Assets not being depreciated	-	37,491,998	37,491,998
Assets being depreciated	-	70,053,420	70,053,420
Total assets	11,016,240	111,190,163	122,206,403
Deferred outflows of resources	-	11,256,933	11,256,933
Total assets and deferred inflows	\$ 11,016,240	122,447,096	133,463,336
Liabilities			
Accounts payable	\$ 763,457	55,727	819,184
Accrued liabilities	126,325	-	126,325
Deposits payable	10,000	-	10,000
Unearned revenue	1,250,000	-	1,250,000
Advances			
State trunkline capital equipment	229,028	-	229,028
State trunkline maintenance	180,082	-	180,082
Long-term liabilities			
Net OPEB liability	-	3,766,053	3,766,053
Installment purchase agreements	-	971,656	971,656
Accrued compensated absences	-	878,894	878,894
Total liabilities	2,558,892	5,672,330	8,231,222
Deferred inflows of resources	-	10,129,730	10,129,730
Fund Balance / Net Position			
Fund balance			
Nonspendable			
Inventory	1,255,764	(1,255,764)	-
Prepaid items	93,433	(93,433)	-
Restricted for road system	7,108,151	(7,108,151)	-
Total fund balance	8,457,348	(8,457,348)	-
Total liabilities, deferred inflows and fund balance	\$ 11,016,240		
Net Position:			
Net investment in capital assets		106,573,762	106,573,762
Restricted for pension benefits		3,545,561	3,545,561
Unrestricted		4,983,061	4,983,061
Total net position		\$ 115,102,384	\$ 115,102,384

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

Bay County Road Commission

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

December 31, 2023

Fund balance - General Operating / Road Fund	\$	8,457,348
The amount reported as net position in the <i>governmental activities</i> in the Statement of Net Position are different because:		
Accruals for the self-insured health plan are not a current financial resources or obligations, therefore are not reported in the fund financial statements		
		99,184
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the General Operating / Road Fund.		
Add - capital assets not being depreciated		37,491,998
Add - capital assets being depreciated		152,093,615
Deduct - accumulated depreciation		(82,040,195)
Certain pension-related amounts such as the net pension asset and deferred amounts are not due an payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements		
Net pension asset		3,545,561
Deferred outflows related to the net pension asset		6,676,093
Deferred inflows related to the net pension asset		(198,000)
Certain OPEB-related amounts such as the net OPEB liability and deferred amounts are not due an payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements		
Net OPEB liability		(3,766,053)
Deferred outflows related to the net OPEB liability		4,580,840
Deferred inflows related to the net OPEB liability		(9,931,730)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the General Operating / Road Fund.		
Deduct - installment purchase agreements		(971,656)
Deduct - incurred but not reported (IBNR) claims of self-insured plan		(55,727)
Deduct - accrued compensated absences		(878,894)
Net position of governmental activities	\$	<u>115,102,384</u>

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

Bay County Road Commission

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

For the Year Ended December 31, 2023

	General Operating / Road Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 13,711,669	\$ 3,287,012	\$ 16,998,681
Capital outlay	7,686,306	(7,686,306)	-
Debt service	578,073	(539,286)	38,787
Total expenditures/expenses	21,976,048	(4,938,580)	17,037,468
Program revenue			
Charges for services	4,256,926	-	4,256,926
Operating grants and contributions			
State transportation and other funds	14,993,195	-	14,993,195
Capital grants and contributions			
Federal sources	1,973,052	-	1,973,052
State sources	1,084,733	-	1,084,733
Local sources	240,001	-	240,001
Total program revenue	22,547,907	-	22,547,907
Net program revenue			5,510,439
General revenue			
Reimbursements, refunds and rebates	221,339	-	221,339
Interest and rents	153,552	-	153,552
Total general revenue	374,891	-	374,891
Total revenue	22,922,798		
Revenue and other financing sources			
Revenue over (under) expenditures / expenses	946,750	(946,750)	-
Change in net position	-	5,885,330	5,885,330
Fund balance / net position:			
Beginning of the year	7,510,598	101,706,456	109,217,054
End of the year	\$ 8,457,348	\$ 106,645,036	\$ 115,102,384

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

Bay County Road Commission

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

For the Year Ended December 31, 2023

Change in fund balance - General Operating / Road Fund	\$ 946,750
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:	
The change in the prepaid expense for the self-insured plan does not impact current financial resources and therefore is not reported in the fund financial statements	
	29,491
The change in the net pension asset and the related deferred inflows / outflows of resources does not impact current financial resources and therefore is not reported in the fund financial statements	
Net pension asset	(11,547,720)
Deferred outflows related to the net pension liability	5,086,707
Deferred inflows related to the net pension liability	6,054,510
The change in the net OPEB liability and the related deferred inflows / outflows of resources does not impact current financial resources and therefore is not reported in the fund financial statements	
Net OPEB liability	(2,515,730)
Deferred outflows related to the net OPEB liability	1,330,629
Deferred inflows related to the net OPEB liability	4,886,223
Fund financial statements report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	1,357,614
Add - infrastructure purchases	6,328,692
Deduct - depreciation expense	(6,634,051)
Deduct - loss on disposal of capital assets	(1,470)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the General Operating / Road Fund.	
Principal paid on long-term debt	539,286
Change in insured but not reported (IBNR) claims of self-insured plan	1,020
Change in accrued compensated absences	23,379
Change in net position of governmental activities	<u>\$ 5,885,330</u>

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

Bay County Road Commission

Notes to Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

The accounting policies adopted by the *Bay County Road Commission* (the “Road Commission”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental entities, including the following accounting policies specific to road commissions: allocation of depreciation / depletion and equipment rental; the recording of handling and overhead credits; and the recording of equipment retirements with the related gain or loss on disposal of equipment. The following is a summary of the significant policies.

Reporting Entity

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

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

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

Government-wide and Fund Financial Statements

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

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

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

Bay County Road Commission

Notes to Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

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

Receivables and Payables

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

Prepaid Items

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

Inventory

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

Bay County Road Commission

Notes to Financial Statements

Capital Assets

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

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

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

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

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

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

Deferred Outflows of Resources

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

Bay County Road Commission

Notes to Financial Statements

Advances from the State of Michigan

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

State Trunkline Adjustments

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

Compensated Absences

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

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

Defined Benefit Pension Plan

The Road Commission offers a defined benefit pension plan to its employees through participation in the Bay County Employees' Retirement System. The Road Commission records a net pension asset for its proportionate share of the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. The Road Commission's proportionate share of the collective net pension asset is calculated as the representative percentage of the total actuarially determined contributions and was 12.34% in the current year and 12.67% in the prior year.

Other Postemployment Benefits

The Road Commission offers healthcare benefits to retirees through participation in the Bay County Voluntary Employees Beneficiary Association (VEBA) trust. The Road Commission records a net OPEB liability for its proportionate share of the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. The Road Commission's proportionate share of the collective net OPEB liability is calculated as the representative percentage of the total actuarially determined contributions and was 21.13% in the current year and 21.25% in the prior year.

Bay County Road Commission

Notes to Financial Statements

Fund Equity

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

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

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

Deferred Inflows of Resources

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

Equipment Rental

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

Handling and Overhead Credits

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

Bay County Road Commission

Notes to Financial Statements

Estimates

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

NOTE B - Stewardship, Compliance and Accountability

Auditing and Reporting

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditors' Report and with the types of compliance requirements described in Public Act 51 of 1951, as amended. The financial statements were prepared in accordance with U.S. GAAP, as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

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

Deposits and Investments

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

	<u>General Operating / Road Fund</u>
Cash on hand	\$ 550
Deposits with financial institutions - demand	<u>295,282</u>
Sub-total	295,832
Investments maintained by County Treasurer	<u>6,366,182</u>
Total	<u>\$ 6,662,014</u>

Deposit and Investment Risk

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

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

Bay County Road Commission

Notes to Financial Statements

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require, and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, \$142,083 of the Road Commission's bank balance of \$392,083 was exposed to custodial credit risk because it was uninsured under FDIC coverage and was uncollateralized.

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

Investments

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

Receivables

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

Michigan Transportation Fund	\$ 2,811,695
State trunkline maintenance	65,172
State - other	4,683
Due on road agreements	100,783
Accrued interest	22,535
Sundry and other accounts receivable	<u>161</u>
Total	<u>\$ 3,005,029</u>

Bay County Road Commission

Notes to Financial Statements

Long-term Debt

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes from direct borrowings and direct payments:					
Installment purchase agreements	\$ 1,510,942	\$ -	\$ (539,286)	\$ 971,656	\$ 539,286
Compensated absences	902,273	391,800	(415,179)	878,894	425,000
Total	\$ 2,413,215	\$ 391,800	\$ (954,465)	\$ 1,850,550	\$ 964,286

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

Notes from direct borrowings and direct payments:

Installment agreement payable to the Bay County Drain Commissioner, due in annual installments including interest at 2.60% through 2024. Hoppler Drain.	\$ 221,200
Installment agreement payable to the Bay County Drain Commissioner, due in annual installments including interest at 2.50% through 2025. Tebo Erickson Drain.	407,600
Installment agreement payable to the Bay County Drain Commissioner, due in annual installments including interest at 3.50% through 2026. Waldo Drain.	342,856
Subtotal	971,656
Compensated absences	878,894
Total	\$ 1,850,550

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

Year Ending December 31	Principal	Interest
2024	\$ 539,286	\$ 23,941
2025	318,085	9,095
2026	114,285	-
Total	\$ 971,656	\$ 33,036

Accrued Compensated Absences

In accordance with Board policy and labor agreements, employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the policy and agreements. The estimated dollar amounts of these vested rights, which have been accrued on the government-wide financial statements, amounted to approximately \$626,000 for sick leave and \$253,000 for vacation at year-end.

Bay County Road Commission

Notes to Financial Statements

Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	\$ 400,237	\$ -	\$ -	\$ 400,237
Land improvements	36,239,007	-	-	36,239,007
Right-of-ways	349,661	-	-	349,661
Depletable assets – wetland credits	360,000	-	-	360,000
Construction in progress	-	143,093	-	143,093
Total capital assets not being depreciated	37,348,905	143,093	-	37,491,998
Capital assets being depreciated				
Buildings and improvements	3,013,436	95,667	(706,780)	2,402,323
Road equipment	14,404,717	1,118,854	(438,596)	15,084,975
Shop equipment	93,818	-	(93,818)	-
Office equipment	163,636	-	(82,950)	80,686
Engineer equipment	114,819	-	(106,823)	7,996
Yard and storage equipment	1,396,051	-	(187,799)	1,208,252
Infrastructure - roads	103,976,209	5,188,647	(2,115,751)	107,049,105
Infrastructure – bridges	24,419,683	1,140,045	-	25,559,728
Infrastructure – traffic signals	700,550	-	-	700,550
Total capital assets being depreciated	148,282,919	7,543,213	(3,732,517)	152,093,615
Less accumulated depreciation				
Buildings and improvements	(2,290,601)	(71,222)	706,780	(1,655,043)
Road equipment	(13,100,968)	(683,346)	437,126	(13,347,188)
Shop equipment	(93,818)	-	93,818	-
Office equipment	(162,360)	(1,276)	82,950	(80,686)
Engineer equipment	(114,686)	(133)	106,823	(7,996)
Yard and storage equipment	(1,394,932)	(1,119)	187,799	(1,208,252)
Infrastructure – roads	(48,071,959)	(5,352,455)	2,115,751	(51,308,663)
Infrastructure – bridges	(13,269,613)	(501,494)	-	(13,771,107)
Infrastructure – traffic signals	(638,254)	(23,006)	-	(661,260)
Total accumulated depreciation	(79,137,191)	(6,634,051)	3,731,047	(82,040,195)
Net capital assets being depreciated	69,145,728	909,162	(1,470)	70,053,420
Total net capital assets	\$ 106,494,633	\$ 1,052,255	\$ (1,470)	\$ 107,545,418

Bay County Road Commission

Notes to Financial Statements

NOTE D – Defined Benefit Pension Plan (BCERS)

Plan Description

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

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

Benefits Provided

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

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

Employees Covered by the Benefit Terms

At the December 31, 2022 measurement date, the following Road Commission participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	95
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>55</u>
Total participants	<u>150</u>

Bay County Road Commission

Notes to Financial Statements

Contribution Requirements

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, BCERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Participants of the Plan contribute between 4.0% to 5.0% of annual covered payroll. The Road Commission contributes the actuarially determined amount, which was 8.91% of annual covered payroll for the year ended.

Actuarial Assumptions

The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry-age normal
Asset valuation method	5-year smoothed market
Wage inflation	3.25%
Price inflation	2.50%
Salary increases	0.75% to 5.25%, including inflation
Investment rate of return	7.25%, net of investment expense and including inflation
Retirement age	Age-based table of rates specific to the type of eligibility
Mortality:	<i>Healthy Pre-Retirement:</i> RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016. <i>Healthy Post-Retirement:</i> RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016. <i>Disability Retirement:</i> RP-2014 Disabled Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016.

The rationale for the actuarial assumptions used in the December 31, 2022 valuation were based on the results of the most recent 5-year actuarial experience study through December 31, 2015, issued August 1, 2017.

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

Bay County Road Commission

Notes to Financial Statements

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

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

Net Pension Asset

The net pension asset reported at year-end was determined using a measure of the total pension liability and the pension net position as of December 31, 2022. The December 31, 2022 total pension liability was determined by an actuarial valuation performed as of that date. The Road Commission's proportionate share of the total Pension liability and the Plan's fiduciary net position was 12.34% at year-end. Changes in the Road Commission's proportionate share of the net pension asset during the year were as follows:

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Beginning balances	\$ 34,136,656	\$ 49,229,937	\$ (15,093,281)
Service cost	551,903	-	551,903
Interest on total pension liability	2,348,034	-	2,348,034
Expected / actual experience differences	194,667	-	194,667
Changes in assumptions	951,530	-	951,530
Employer contributions	-	581,870	(581,870)
Employee contributions	-	222,862	(222,862)
Net investment income (loss)	-	(7,436,006)	7,436,006
Benefit payments	(2,272,196)	(2,272,196)	-
Administrative expenses	-	(32,604)	32,604
Changes in proportionate share	(889,830)	(1,724,538)	834,708
Other changes	-	-	-
Net changes	884,108	(10,663,612)	11,544,720
Ending balances	\$ 35,020,764	\$ 38,566,325	\$ (3,545,561)

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

Bay County Road Commission

Notes to Financial Statements

	1% Decrease in Rate to 6.25%	Assumed Discount Rate 7.25%	1% Increase in Rate to 8.25%
Net pension liability (asset)	\$ 395,245	\$ (15,093,281)	\$ (6,863,780)

Pension Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to / deduction from fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expenses when due and payable in accordance with the benefit terms.

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

During the year the Road Commission recognized a pension expense of \$406,502. At year-end, the Road Commission reported deferred outflows and deferred inflows of resources related to the pension from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date	\$ 314,172	\$ -
Net difference between projected and actual earnings on pension plan investments	4,299,095	-
Changes in assumptions	776,140	-
Changes in proportionate share	1,066,885	-
Differences between expected and actual experience	219,801	198,000
Total	\$ 6,676,093	\$ 198,000

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

Year Ending December 31,	Net Amount
2024	\$ 356,575
2025	1,282,099
2026	1,887,001
2027	2,507,030
2028	131,216
Total	\$ 6,163,921

Bay County Road Commission

Notes to Financial Statements

The amount reported as deferred outflows of resources related to employer contributions to the plan made subsequent to the measurement date of \$314,172 will impact the net pension liability in 2024, as opposed to being amortized to pension expense over a period of years.

NOTE E – Postemployment Benefits Other than Pensions (OPEB)

Plan Description, Membership and Benefits

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

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

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

Funding Policy and Contributions

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

Annual OPEB Cost and Net OPEB Liability

The Road Commission’s annual other postemployment benefit (OPEB) cost (expense) is calculated based the *actuarially determined contribution of the employer (ADC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 75. The ADC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of 8 (eight) years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Participants Covered by the Benefit Terms

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

Inactive plan members or beneficiaries currently receiving benefits	91
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>61</u>
Total participants	<u><u>152</u></u>

Bay County Road Commission

Notes to Financial Statements

Contributions

Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. During the year, the Road Commission paid current retiree premiums of \$845,394 and made an advance funding contribution of \$480,000. The premiums for postemployment healthcare benefits and the advance funding payment were paid and recorded as expenditures in the General Operating / Road Fund.

Net OPEB Liability

The net OPEB liability reported at year-end was determined using a measure of the total OPEB liability and the OPEB net position as of December 31, 2022. The December 31, 2022 total OPEB liability was determined by an actuarial valuation performed as of that date. The Road Commission's proportionate share of the total OPEB liability and the Plan's fiduciary net position was 21.13%. Changes in the Road Commission's proportionate share of the net OPEB liability during the year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Beginning balances	\$ 15,319,118	\$ 14,068,795	\$ 1,250,323
Service cost	210,696	-	210,696
Interest on total OPEB liability	1,038,116	-	1,038,116
Changes of benefit terms	(1,005)	-	(1,005)
Expected / actual experience differences	3,652	-	3,652
Changes in assumptions	601,982	-	601,982
Changes in proportionate share	(87,930)	(60,734)	(27,196)
Employer contributions	-	1,332,059	(1,332,059)
Employee contributions	-	-	-
Net investment income (loss)	-	(2,014,200)	2,014,200
Benefit payments	(1,012,613)	(1,012,613)	-
Administrative expenses	-	(7,344)	7,344
Other changes	-	-	-
Net changes	752,898	(1,762,832)	2,515,730
Ending balances	\$ 16,072,016	\$ 12,305,963	\$ 3,766,053

Bay County Road Commission

Notes to Financial Statements

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

During the year the Road Commission recognized a negative OPEB expense of \$(3,790,196). At year-end, the Road Commission reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date	\$ 480,000	\$ -
Employer-paid benefits subsequent to the measurement date	845,394	-
Net difference between projected and actual earnings on OPEB plan investments	1,367,433	-
Changes in assumptions	1,211,774	676
Changes in proportionate share	673,241	1,147,352
Differences between expected and actual experience	2,998	8,783,702
Total	\$ 4,580,840	\$ 9,931,730

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

Year Ending December 31,	Amount
2024	\$ (2,739,222)
2025	(2,362,060)
2026	(1,749,424)
2027	123,085
2028	51,337
Total	\$ (6,676,284)

The amount reported as deferred outflows of resources related to employer contributions to the Plan and benefit payments made subsequent to the measurement date of \$1,325,394 will impact the net OPEB liability in 2024, as opposed to being amortized to OPEB expense over a period of years.

Actuarial Methods and Assumptions

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

The valuation of the total OPEB liability was determined using the following actuarial assumptions (a) 7.00% net investment rate of return, (b) projected salary increases of 0.75% to 5.25% including wage inflation, (c) projected health care premium increases of 8.25%, gradually decreasing to 3.50% in year 10 and the RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via

Bay County Road Commission

Notes to Financial Statements

cubic spline adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2016. The Plan unfunded actuarial accrued liability is being amortized by level percent of active member payroll contributions on a closed period over 11 years.

The actuarial assumptions used in the December 31, 2022 valuation were based on the experience study covering the five-year period ending December 31, 2015, issued August 1, 2017.

Discount Rate

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

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

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

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed. The long-term expected real rate of return used in the valuation was 7.00%.

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

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

	1% Decrease in Rate to 6.00%	Assumed Discount Rate 7.00%	1% Increase in Rate to 8.00%
Net OPEB liability	\$ 5,499,614	\$ 3,766,053	\$ 2,298,836

Bay County Road Commission

Notes to Financial Statements

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

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

	1% Decrease in Cost Trend Rate	Assumed Cost Trend Rate	1% Increase in Cost Trend Rate
Net OPEB liability	\$ 2,090,534	\$ 3,766,053	\$ 5,764,854

Net Equipment Expenditures Balance

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

Equipment –	
Direct	\$ 1,484,787
Indirect	1,333,028
Operating	385,074
Less equipment rental credits	<u>(2,416,290)</u>
Total, net	<u>\$ 786,599</u>

Capital Outlay Expenditure Balance

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

Capital outlay	\$ 1,357,614
Less equipment retirements	-
Less depreciation / depletion	<u>(757,096)</u>
Total, net	<u>\$ 600,518</u>

Risk Management

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

Bay County Road Commission

Notes to Financial Statements

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

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

The Road Commission is self-insured for health care benefits with the administrative services of the program being performed by a health insurance company. The Road Commission makes monthly payments based on estimated claims and a stop-loss provision, which are adjusted quarterly. The Road Commission pays claims up to \$75,000 per contract year. Based on claims incurred, the Road Commission has estimated the accrued health care claims, including an estimate for claims incurred but not reported (IBNR) of \$55,727 and \$56,747 at December 31, 2023 and 2022, respectively.

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

	<u>2023</u>	<u>2022</u>
Unpaid claims, beginning of year	\$ 56,747	\$ 46,097
Incurred claims (including IBNR)	2,185,417	2,171,949
Claims paid	<u>(2,184,437)</u>	<u>(2,161,299)</u>
Unpaid (prepaid) claims, end of year	55,727	56,747
Less: current portion	<u>(55,727)</u>	<u>(56,747)</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

Contingencies

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

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

Federal Award Expenditures / Single Audit

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year, Federal aid reported by the Road Commission was \$1,973,052 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. Because the Road Commission expended less than \$750,000 in negotiated projects, a single audit was not required.



REQUIRED SUPPLEMENTARY INFORMATION

Bay County Road Commission

General Operating / Road Fund

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

For the Year Ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Licenses and permits	\$ 111,922	\$ 119,232	\$ 116,647	\$ (2,585)
Federal sources				
Surface transportation program (STP)	1,835,627	1,603,212	1,973,052	369,840
State sources				
Michigan transportation funds				
Engineering	10,000	10,000	10,000	-
Urban road	2,077,074	2,111,841	2,158,116	46,275
Allocation	12,351,215	12,572,510	12,825,079	252,569
Other				
Local bridge program	1,736,783	1,475,545	1,084,733	(390,812)
Contributions from local units				
City and Village	2,350,000	2,028,658	2,088,388	59,730
Townships	100,000	85,000	86,005	1,005
Charges for services				
State trunkline maintenance	2,090,468	2,075,141	1,962,505	(112,636)
State trunkline non-maintenance	1,588	-	-	-
Salvage sales	6,500	3,381	3,381	-
Interest and rentals	68,000	137,436	153,552	16,116
Other				
Sundry refunds			145	145
Proceeds from sale of capital assets	10,000	42,475	42,975	500
Other	52,013	387,813	418,220	30,407
Total revenue	<u>\$ 22,801,190</u>	<u>\$ 22,652,244</u>	<u>\$ 22,922,798</u>	<u>\$ 270,554</u>

Bay County Road Commission

General Operating / Road Fund

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

For the Year Ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Primary Road				
Preservation / structural improvements	\$ 9,014,999	\$ 6,183,429	\$ 5,990,894	\$ (192,535)
Maintenance	4,116,457	6,428,018	6,206,783	(221,235)
Local Road				
Preservation / structural improvements	1,320,317	286,379	337,799	51,420
Maintenance	4,486,727	4,558,293	4,388,636	(169,657)
Total preservation and maintenance	18,938,500	17,456,119	16,924,112	(532,007)
State trunkline maintenance	2,092,056	2,075,141	1,967,851	(107,290)
State trunkline non-maintenance			-	-
Administrative (net)	1,076,778	1,039,801	1,061,515	21,714
Equipment (net)	274,824	661,636	786,599	124,963
Capital outlay (net)	181,178	400,903	600,518	199,615
Debt service	539,286	539,286	578,073	38,787
Other	78,787	81,674	57,380	(24,294)
Total expenditures	<u>23,181,409</u>	<u>22,254,560</u>	<u>21,976,048</u>	<u>(278,512)</u>
Net change in fund balance	(380,219)	397,684	946,750	549,066
Fund balance, beginning of year	<u>7,497,298</u>	<u>7,510,598</u>	<u>7,510,598</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 7,117,079</u></u>	<u><u>\$ 7,908,282</u></u>	<u><u>\$ 8,457,348</u></u>	<u><u>\$ 549,066</u></u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total pension liability				
Service cost	\$ 551,903	\$ 573,119	\$ 587,302	\$ 553,506
Interest on total pension liability	2,348,034	2,358,018	2,344,653	2,376,474
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	194,667	75,667	(319,952)	(281,513)
Changes in assumptions	951,530	-	-	-
Benefit payments	(2,272,196)	(2,215,863)	(2,099,067)	(2,090,755)
Changes in proportionate share	(889,830)	(263,142)	(1,009,368)	(524,719)
Other changes	-	-	-	-
Net change in total pension liability	884,108	527,799	(496,432)	32,993
Total pension liability - beginning	34,136,656	33,608,857	34,105,289	34,072,296
Total pension liability - ending	<u>\$ 35,020,764</u>	<u>\$ 34,136,656</u>	<u>\$ 33,608,857</u>	<u>\$ 34,105,289</u>
Plan fiduciary net position				
Contributions - employer	\$ 581,870	\$ 599,259	\$ 609,085	\$ 598,845
Contributions - member	222,862	224,385	222,380	226,673
Net investment income (loss), net	(7,439,006)	6,703,398	6,198,343	7,878,749
Benefit payments, including refunds of member contributions	(2,272,196)	(2,215,863)	(2,099,067)	(2,090,755)
Administrative expenses	(32,604)	(20,360)	(24,834)	(27,944)
Changes in proportionate share	(1,724,538)	(791,350)	(1,669,236)	(994,163)
Other changes	-	-	-	-
Net change in fiduciary net position	(10,663,612)	4,499,469	3,236,671	5,591,405
Fiduciary net position - beginning	49,229,937	44,730,468	41,493,797	35,902,392
Fiduciary net position - ending	<u>\$ 38,566,325</u>	<u>\$ 49,229,937</u>	<u>\$ 44,730,468</u>	<u>\$ 41,493,797</u>
Net pension liability (asset) - ending	<u>\$ (3,545,561)</u>	<u>\$ (15,093,281)</u>	<u>\$ (11,121,611)</u>	<u>\$ (7,388,508)</u>
Fiduciary net position as a percentage of the total pension liability	110.12%	144.21%	133.09%	121.66%
Covered-employee payroll	\$ 5,697,968	\$ 5,691,190	\$ 5,674,221	\$ 5,321,740
Net pension liability (asset) as percentage of covered-employee payroll	-62.23%	-265.20%	-196.00%	-138.84%

Bay County Road Commission

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Fiscal Years Ended December 31,

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

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

See Notes to Required Supplementary Information

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

	2023	2022	2021	2020
Total pension liability	\$ 35,020,764	\$ 34,136,656	\$ 33,608,857	\$ 34,105,289
Plan net position	38,566,325	49,229,937	44,730,468	41,493,797
Net pension liability (asset)	(3,545,561)	(15,093,281)	(11,121,611)	(7,388,508)
Plan net position as a percent of total pension liability	-10.12%	-44.21%	-33.09%	-21.66%
Covered payroll	\$ 5,697,968	\$ 5,691,190	\$ 5,674,221	\$ 5,321,740
Net pension liability as a percent of covered payroll	-62.23%	-265.20%	-196.00%	-138.84%

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

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

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

See Notes to Required Supplementary Information

Bay County Road Commission
Required Supplementary Information
Schedule of Employer Contributions

Last 10 Fiscal Years Ended December 31,

	2023	2022	2021	2020
Actuarially determined contribution	\$ 581,870	\$ 599,259	\$ 609,085	\$ 598,845
Contributions in relation to the actuarially determined contribution	581,870	599,259	609,085	598,845
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
 Covered-employee payroll	 \$ 5,697,968	 \$ 5,691,190	 \$ 5,674,221	 \$ 5,321,740
 Contributions as percentage of covered- employee payroll	 10.21%	 10.53%	 10.73%	 11.25%

Bay County Road Commission
Required Supplementary Information
Schedule of Employer Contributions

Last 10 Fiscal Years Ended December 31,

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

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

See Notes to Required Supplementary Information

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

	2023
Total OPEB liability	
Service cost	\$ 210,696
Interest on total pension liability	1,038,116
Changes of benefit terms	(1,005)
Differences between expected and actual experience	3,652
Changes in assumptions	601,982
Benefit payments	(1,012,613)
Changes in proportionate share	(87,930)
Other changes	-
Net change in total pension liability	752,898
Total OPEB liability - beginning	15,319,118
Total OPEB liability - ending	\$ 16,072,016
 Plan fiduciary net position	
Contributions - employer	\$ 1,332,059
Contributions - member	-
Net investment income (loss)	(2,014,200)
Benefit payments and refunds	(1,012,613)
Administrative expenses	(7,344)
Changes in proportionate share	(60,734)
Other	-
Net change in fiduciary net position	(1,762,832)
Fiduciary net position - beginning	14,068,795
Fiduciary net position - ending	\$ 12,305,963
Net OPEB liability - ending	\$ 3,766,053
 Fiduciary net position as a percentage of the total OPEB liability	76.57%
Covered-employee payroll	\$ 4,582,357
Net OPEB liability as percentage of covered-employee payroll	82.19%

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018*</u>
Total OPEB liability					
Service cost	\$ 257,732	\$ 241,798	\$ 367,916	\$ 380,085	\$ 463,266
Interest on total pension liability	1,436,517	1,823,544	1,937,211	1,907,317	1,840,604
Changes of benefit terms	(32,854)	-	-	-	13,173
Differences between expected and actual experience	(6,613,569)	(8,812,357)	(477,358)	(381,766)	(439,440)
Changes in assumptions	393,183	920,056	-	(126,680)	-
Benefit payments	(1,029,383)	(887,945)	(1,047,422)	(1,122,252)	(984,986)
Changes in proportionate share	1,248,691	(2,420,836)	(260,975)	170,638	-
Other changes	-	-	-	-	-
Net change in total pension liability	(4,339,683)	(9,135,740)	519,372	827,342	892,617
Total OPEB liability - beginning	19,658,801	28,794,541	28,275,169	27,447,827	26,555,210
Total OPEB liability - ending	<u>\$ 15,319,118</u>	<u>\$ 19,658,801</u>	<u>\$ 28,794,541</u>	<u>\$ 28,275,169</u>	<u>\$ 27,447,827</u>
Plan fiduciary net position					
Contributions - employer	\$ 1,402,339	\$ 1,308,220	\$ 1,299,839	\$ 1,377,938	\$ 1,223,943
Contributions - member	-	-	-	-	-
Net investment income (loss)	1,560,214	1,615,927	1,667,374	(383,447)	860,682
Benefit payments and refunds	(1,029,383)	(887,945)	(1,047,422)	(1,122,252)	(984,986)
Administrative expenses	(12,045)	(14,917)	(13,045)	(3,011)	(9,507)
Changes in proportionate share	894,580	(816,417)	121,958	502,811	-
Other	-	-	-	420	(173,637)
Net change in fiduciary net position	2,815,705	1,204,868	2,028,704	372,459	916,495
Fiduciary net position - beginning	11,253,090	10,048,222	8,019,518	7,647,059	6,730,564
Fiduciary net position - ending	<u>\$ 14,068,795</u>	<u>\$ 11,253,090</u>	<u>\$ 10,048,222</u>	<u>\$ 8,019,518</u>	<u>\$ 7,647,059</u>
Net OPEB liability - ending	<u>\$ 1,250,323</u>	<u>\$ 8,405,711</u>	<u>\$ 18,746,319</u>	<u>\$ 20,255,651</u>	<u>\$ 19,800,768</u>
Fiduciary net position as a percentage of the total OPEB liability	91.84%	57.24%	34.90%	28.36%	27.86%
Covered-employee payroll	\$ 4,704,542	\$ 4,669,546	\$ 5,316,786	\$ 6,593,953	\$ 5,635,011
Net OPEB liability as percentage of covered-employee payroll	26.58%	180.01%	352.59%	307.19%	351.39%

* GASB Statement No. 75 was implemented as of December 31, 2018. Information from 2014 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

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

	<u>2023</u>
Total OPEB liability	\$ 16,072,016
Plan net position	12,305,963
Net OPEB liability	3,766,053
Plan net position as a percent of total OPEB liability	76.57%
Covered payroll	\$ 4,582,357
Net OPEB liability as a percent of covered payroll	82.19%

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018*</u>
Total OPEB liability	\$ 15,319,118	\$ 19,658,801	\$ 28,794,541	\$ 28,275,169	\$ 27,447,827
Plan net position	14,068,795	11,253,090	10,048,222	8,019,518	7,647,059
Net OPEB liability	1,250,323	8,405,711	18,746,319	20,255,651	19,800,768
Plan net position as a percent of total OPEB liability	91.84%	57.24%	34.90%	28.36%	27.86%
Covered payroll	\$ 4,704,542	\$ 4,669,546	\$ 5,316,786	\$ 6,593,953	\$ 5,635,011
Net OPEB liability as a percent of covered payroll	26.58%	180.01%	352.59%	307.19%	351.39%

* GASB Statement No. 75 was implemented as of December 31, 2018. Information from 2014 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

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

	<u>2023</u>
Actuarially determined contribution	\$ 1,605,311
Contributions in relation to the actuarially determined contribution	<u>1,332,059</u>
Contribution deficiency (excess)	<u><u>\$ 273,252</u></u>
 Covered-employee payroll	 \$ 4,582,357
 Contributions as percentage of covered- employee payroll	 29.07%

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018*</u>
Actuarially determined contribution	\$ 2,385,284	\$ 3,797,730	\$ 3,798,890	\$ 3,223,518	\$ 3,219,583
Contributions in relation to the actuarially determined contribution	<u>1,402,339</u>	<u>1,308,220</u>	<u>1,299,839</u>	<u>1,377,938</u>	<u>1,223,943</u>
Contribution deficiency (excess)	<u>\$ 982,945</u>	<u>\$ 2,489,510</u>	<u>\$ 2,499,051</u>	<u>\$ 1,845,580</u>	<u>\$ 1,995,640</u>
Covered-employee payroll	\$ 4,704,542	\$ 4,669,546	\$ 5,316,786	\$ 6,593,953	\$ 5,635,011
Contributions as percentage of covered- employee payroll	29.81%	28.02%	24.45%	20.90%	21.72%

* GASB Statement No. 75 was implemented as of December 31, 2018. Information from 2014 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

Bay County Road Commission
Notes to Required Supplementary Information

Budgetary Data

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

- * The Road Commission Finance Director prepares a proposed operating budget for the fiscal year commencing January 1st. The proposed operating budget includes identification of expenditures and resources to finance them.
- * Prior to December 31st, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed budget. The budget is then legally enacted through passage of a resolution adopted by the Board of County Road Commissioners and is placed in the Board minutes.
- * The Road Commission’s approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act, since the Board of County Road Commissioners must approve amendments to the budget at the activity level.
- * The budget for the General Operating / Road Fund is adopted on a basis consistent with U.S. GAAP. Budget amounts reported in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.
- * The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.
- * Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. Variances at the legal level of control are as disclosed on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.
- * Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. The General Operating / Road Fund had expenditures that exceeded budgeted appropriations at the activity level, which is the Road Commission’s legal level of budgetary control, as follows:

	Final Budget	Actual	Over Budget
Debt service	\$ 539,286	\$ 578,073	\$ 38,787

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

Bay County Road Commission
Notes to Required Supplementary Information

Defined Benefit Pension Plan

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	20 years open
Asset valuation method	5-year smoothed market
Wage inflation	3.25%
Price inflation	2.50%
Salary increases	0.75% to 5.25%, including inflation
Investment rate of return	7.25% (net of administrative and investment expenses)
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	Pub-2010 General Healthy Annuitant Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010. These mortality assumptions were first adopted for the 12/31/2022 actuarial valuation

Other Information:

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

Defined Benefit OPEB Plan

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Market value of assets
Price inflation	2.50%
Wage inflation	3.25%
Salary increases	0.75% to 5.25%, including inflation
Investment rate of return	7.00% (net of OPEB plan investment expenses)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	<i>Pre-Retirement</i> : The RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. <i>Healthy Post-Retirement</i> : The RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments extended via cubic spline. <i>Disability Retirement</i> : The RP-2014 Disabled Mortality Table, extended via cubic spline. These tables are adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2016.
Healthcare trend rates	8.25% trend, gradually decreasing to 3.50% in year 10
Aging factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death."

Other Information:

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

OTHER SUPPLEMENTARY INFORMATION

Bay County Road Commission

General Operating / Road Fund

Schedule of Revenues by Component

For the Year Ended December 31, 2023

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Revenues				
Licenses and permits	\$ 32,521	\$ 33,044	\$ 51,082	\$ 116,647
Federal sources				
Surface transportation program (STP)	1,973,052	-	-	1,973,052
State sources				
Michigan transportation funds				
Engineering	7,172	2,828	-	10,000
Urban road	1,753,971	404,145	-	2,158,116
Allocation	9,198,295	3,626,784	-	12,825,079
Other				
Other	1,084,733	-	-	1,084,733
Contributions from local units				
Township	-	2,088,388	-	2,088,388
Other	-	86,005	-	86,005
Charges for services				
State trunkline maintenance	-	-	1,962,505	1,962,505
State trunkline non-maintenance	-	-	-	-
Salvage sales	-	-	3,381	3,381
Interest and rentals	4,123	110,017	39,412	153,552
Other				
Sundry refunds	-	-	145	145
Proceeds from sale of capital assets	-	-	42,975	42,975
Other - private contributions	-	2	418,218	418,220
Total revenues	\$ 14,053,867	\$ 6,351,213	\$ 2,517,718	\$ 22,922,798

Bay County Road Commission
General Operating / Road Fund
Schedule of Expenditures by Component
For the Year Ended December 31, 2023

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Expenditures				
Preservation / Structural Improvements				
Roads	\$ 4,872,770	\$ 315,878	\$ -	\$ 5,188,648
Structures	1,118,124	21,921	-	1,140,045
Maintenance				
Roads	4,876,366	3,925,950	-	8,802,316
Winter maintenance	600,517	259,998	-	860,515
Traffic control	729,900	202,688	-	932,588
Total construction and maintenance	12,197,677	4,726,435	-	16,924,112
State trunkline maintenance	-	-	1,967,851	1,967,851
State trunkline non-maintenance	-	-	-	-
Administrative expense (net)	765,063	296,452	-	1,061,515
Equipment expense (net)	322,276	284,152	180,171	786,599
Capital outlay (net)	-	-	600,518	600,518
Debt service:				
Principal	539,286	-	-	539,286
Interest	38,787	-	-	38,787
Other:				
Other maintenance	-	-	57,380	57,380
Total expenditures	\$ 13,863,089	\$ 5,307,039	\$ 2,805,920	\$ 21,976,048

Bay County Road Commission
General Operating / Road Fund
Schedule of Changes in Fund Balance by Component
For the Year Ended December 31, 2023

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Total revenues	\$ 14,053,867	\$ 6,351,213	\$ 2,517,718	\$ 22,922,798
Total expenditures	13,863,089	5,307,039	2,805,920	21,976,048
Revenues over (under) expenditures	<u>190,778</u>	<u>1,044,174</u>	<u>(288,202)</u>	<u>946,750</u>
Fund balance, beginning of year				
As previously stated	1,437,441	5,381,226	691,931	7,510,598
Reclassification adjustments	(1,235,830)	-	1,235,830	-
As restated	<u>201,611</u>	<u>5,381,226</u>	<u>1,927,761</u>	<u>7,510,598</u>
Fund balance, end of year	<u>\$ 392,389</u>	<u>\$ 6,425,400</u>	<u>\$ 1,639,559</u>	<u>\$ 8,457,348</u>

INTERNAL CONTROL AND COMPLIANCE



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A VETERAN OWNED BUSINESS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the **Bay County Road Commission**, a component unit of Bay County, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the **Bay County Road Commission's** basic financial statements and have issued our report thereon dated May 8, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, as described as finding 2023-1 in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

Road Commission's Response to Finding

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

Purpose of this Report

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

Smith + Klaehowitz PC

Saginaw, Michigan

May 8, 2024

Bay County Road Commission

Schedule of Findings and Responses

For the Year Ended December 31, 2023

Finding 2023-1 – Preparation of Financial Statements in Accordance with U.S. GAAP (*repeated*)

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

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

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

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

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