

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

ANNUAL FINANCIAL REPORT
With Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2013



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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Road Commission of Bay County, a component unit of Bay County, Michigan as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Road Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Road Commission of Bay County, Michigan, as of December 31, 2013, 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.

Change in Accounting Principle

As discussed in Note 15 to the financial statements, for 2013 the Bay County Road Commission adopted GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. As a result certain items that were previously reported as liabilities are now classified as deferred inflows of resources. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission of Bay County, Michigan's basic financial statements. The accompanying supplementary information as listed in the table of contents and presented on pages 25-27 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2014 on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control over financial reporting and compliance.

Stewart Beauvais & Whipple, P.C.
Certified Public Accountants

May 1, 2014

BAY COUNTY ROAD COMMISSION

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of the Bay County Road Commission (the “Road Commission”), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

General Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 9 - 23 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$87,202,719 at the end of the year.

The net position is separated into two major components, net investment in capital assets of \$90,969,118 and an unrestricted deficit of \$(3,766,399). The net investment in capital assets of the Road Commission reflects its investments in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure) net of any related debt used to acquire these amounts. The Road Commission had \$167,839 outstanding on a capital lease at year end. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

At the end of the current year, the Road Commission is able to report a positive balance in the net investment in capital assets category; however, a deficit is again reported for the unrestricted category. The \$454,053 addition to the deficit from the December 31, 2012 balance is due to the increase to the net OPEB obligation.

The table below shows a comparison of the Statement of Net Position as of December 31, 2013 and 2012 in a condensed format.

Statement of Net Position

	<u>2013</u>	<u>2012</u>
Other assets	\$ 6,057,140	\$ 5,418,386
Capital assets	<u>91,136,957</u>	<u>88,108,759</u>
Total Assets	<u>97,194,097</u>	<u>93,527,145</u>
Other liabilities	1,315,494	1,142,082
Noncurrent liabilities	<u>8,675,884</u>	<u>7,588,650</u>
Total Liabilities	<u>9,991,378</u>	<u>8,730,732</u>
Net Position		
Net investment in capital assets	90,969,118	88,108,759
Unrestricted (deficit)	<u>(3,766,399)</u>	<u>(3,312,346)</u>
Total Net Position	<u>\$ 87,802,719</u>	<u>\$ 84,796,413</u>

Statement of Activities

The table below compares the revenues and expenses for the year ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Revenues		
Federal sources	\$ 2,245,246	\$ 496,924
State sources	8,148,958	7,516,370
Local sources	2,387,308	2,174,657
Charges for services	2,014,960	1,797,235
Other	<u>218,750</u>	<u>253,748</u>
Total Revenues	<u>15,015,222</u>	<u>12,238,934</u>
Expenses		
Maintenance	8,201,356	7,397,177
Administrative	1,041,100	841,120
Equipment (Net)	(425,288)	(144,515)
Depreciation	3,769,557	3,735,000
Other	<u>22,191</u>	<u>436,454</u>
Total Expenses	<u>12,608,916</u>	<u>12,265,236</u>
Change in Net Position	2,406,306	(26,302)
Net Position - Beginning of Year	<u>84,796,413</u>	<u>84,822,715</u>
Net Position - End of Year	<u>\$ 87,202,719</u>	<u>\$ 84,796,413</u>

As shown in the preceding schedule comparing 2013 and 2012 Statement of Activities amounts, the total revenue increased \$2,776,288 or about 22.7%. The change between the years resulted mainly from increase in federal sources of approximately \$1.7 million and state sources of approximately \$400,000 for MDOT administered projects.

The remaining revenue sources remained relatively constant between 2013 and 2012. Of the state source revenue, \$7,641,805 and \$7,516,370 was received in 2013 and 2012, respectively, from Michigan Transportation Funds, which represents approximately 50.9% of the total revenue received in 2013 and 61.4% of the total revenue received in 2012.

Total expenses remained relatively constant between 2013 and 2012 except for an increase in maintenance expenses due to the harsh winter.

General Fund Financial Analysis

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

As of the end of the current year, the Road Commission reported an ending fund balance of \$4,640,858, an increase of \$371,761 from the prior year. Approximately 43.8% or \$2,031,138 of the fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, assigned, or committed to indicate that the amount is not available for new spending due to \$472,739 of prepaid items and deposits and \$640,974 of inventory as nonspendable, \$675,345 assigned for 2014 operations, and \$820,662 committed for healthcare premiums.

BUDGETARY HIGHLIGHTS

The total difference between the original budget and the final amended budgeted expenditures was a decrease of \$2,595,077 or approximately 15.9% of the original budget due to MDOT administered projects.

The variance between the final budget and actual amounts for expenditures was \$1,016,164 or approximately 7.4% of the final budgeted expenditures. Actual revenues were more than the final budgeted amounts by \$986,221, which is less than 7.1% of the final budget.

Details of the original budget, final amended budget and actual amounts may be seen on page 24 of the report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of year end, the Road Commission had invested in capital assets (net of accumulated depreciation) which is reflected in the following schedule, representing an increase of \$3,028,198 from the 2012 balance.

	<u>2013</u>	<u>2012</u>
Land	\$ 505,981	\$ 505,981
Land improvements and right-of-ways	54,218,909	51,463,863
Buildings & Improvements	865,486	869,854
Equipment	544,098	661,166
Depletable assets	38,434	38,434
Infrastructure	<u>34,964,049</u>	<u>34,569,461</u>
Total Capital Assets	<u>\$ 91,136,957</u>	<u>\$ 88,108,759</u>

Long-term Liabilities – At the end of the current year, the Road Commission had a capital lease payable outstanding of \$167,839 for a street sweeper. The Road Commission also has other recorded liabilities of \$7,541,035 for net OPEB obligation and \$967,010 for accrued sick and vacation. Additional information on the Road Commission's long-term liabilities may be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission Michigan Transportation Fund revenue has remained level with the prior year but has declined overall the last several years. A long-term state fiscal crisis is affecting local townships' demands for maintenance projects. It is anticipated that there will be no increase in Michigan Transportation Fund revenue in 2014. The State Trunkline Maintenance budget for fiscal year 2014 was kept at the same total as the fiscal year 2013 budget.

The Road Commission has kept the 2014 budget from routine maintenance costs close to the 2013 level. The Road Commission is projecting 2014 local road/structural improvements to remain close to the same amount as 2013 assuming local Townships utilize available funding. There are several large projects with an estimated cost of \$3,099,000 that will be done with matching federal funds of approximately \$498,076 by Rural Task Force, \$836,800 by Bay City Area Transportation Study (BCATS), \$730,000 by Transportation Economic Development Fund (TEDF), and \$383,000 by Local Bridges Program. An overall decrease in fund balance of approximately \$675,345 is anticipated although the fund balance is projected to remain strong at approximately \$4,200,000.

CONTACTING THE ROAD COMMISSION MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET / STATEMENT OF NET POSITION
DECEMBER 31, 2013

	General Fund	Adjustments (Note 2)	Governmental Activities
Assets:			
Cash	\$ 660,326	\$ -	\$ 660,326
Investments	2,309,106	-	2,309,106
Due from other governmental units -			
State	1,693,447	-	1,693,447
Local	122,964	-	122,964
Due from primary government	7,790	-	7,790
Accounts and interest receivable	149,794	-	149,794
Deposit - health insurance	380,917	-	380,917
Prepaid items	91,822	-	91,822
Inventory	640,974	-	640,974
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	54,724,890	54,724,890
Assets being depreciated	-	36,412,067	36,412,067
Total Assets	\$ 6,057,140	91,136,957	97,194,097
Liabilities:			
Accounts payable	\$ 303,929	-	303,929
Accrued liabilities	361,362	-	361,362
Due to other governmental units	12,827	-	12,827
Due to other component units	318,291	-	318,291
Advances	319,085	-	319,085
Noncurrent liabilities -			
Due within one year	-	254,384	254,384
Due in more than one year	-	880,465	880,465
Net OPEB Obligation	-	7,541,035	7,541,035
Total Liabilities	1,315,494	8,675,884	9,991,378
Deferred Inflows of Resources:			
Unavailable revenue	100,788	(100,788)	-
Fund Balance:			
Nonspendable- Prepays, deposits, and inventory	1,113,713	(1,113,713)	
Committed - Healthcare	820,662	(820,662)	-
Assigned - 2014 Operations	675,345	(675,345)	-
Unassigned	2,031,138	(2,031,138)	-
Total Fund Balance	4,640,858	(4,640,858)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 6,057,140		
Net Position:			
Net investment in capital assets		90,969,118	90,969,118
Unrestricted (deficit)		(3,766,399)	(3,766,399)
Total Net Position		\$ 87,202,719	\$ 87,202,719

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Adjustments (Note 2)	Governmental Activities
Revenues:			
Permits	\$ 49,099	\$ -	\$ 49,099
Intergovernmental -			
Federal sources	2,245,246	-	2,245,246
State sources	8,048,170	100,788	8,148,958
Local sources	2,394,515	(7,207)	2,387,308
Charges for services	2,014,960	-	2,014,960
Interest and rents	51,406	-	51,406
Other	118,245	-	118,245
Total Revenues	14,921,641	93,581	15,015,222
Expenditures/Expenses:			
Current -			
Primary construction/capacity improvements	1,864,089	(1,864,089)	-
Primary preservation - structural improvements	3,147,133	(3,147,133)	-
Local preservation - structural improvements	1,302,587	(1,302,587)	-
Primary maintenance	2,459,184	171,129	2,630,313
Local maintenance	3,314,313	250,922	3,565,235
State maintenance	2,005,808	-	2,005,808
Administrative	822,613	218,487	1,041,100
Equipment operations	2,335,544	(326,525)	2,009,019
Less: equipment rental charged to other activities	(2,434,307)	-	(2,434,307)
Depreciation	-	3,769,557	3,769,557
Other	22,191	-	22,191
Capital Outlay	483,946	(483,946)	-
Less: depreciation credit	(605,382)	605,382	-
Debt Service	59,161	(59,161)	-
Total Expenditures/Expenses	14,776,880	(2,167,964)	12,608,916
Revenues Over Expenditures/Expenses	144,761	2,261,545	2,406,306
Other Financing Sources:			
Lease proceeds	227,000	(227,000)	-
Change in Fund Balance/Net Position	371,761	2,034,545	2,406,306
Fund Balance/Net Position at January 1, 2013	4,269,097	80,527,316	84,796,413
Fund Balance/Net Position at December 31, 2013	\$ 4,640,858	\$ 82,561,861	\$ 87,202,719

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

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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

A. Description of Road Commission Operations -

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

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), and operates under a Board appointed by the Bay County Board of Commissioners. The Road Commission Board consists of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to fourteen (14) townships in Bay County and maintains over 1,400 miles of state, local and primary roads.

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

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

The General Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. The major revenue sources that are susceptible to accrual are motor vehicle highway funds and township contributions. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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

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

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

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

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

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

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

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

The estimated useful lives are as follows:

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

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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

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

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

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

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

Pension and Other Postemployment Benefits (OPEB) - The Road Commission offers both pension and retiree healthcare benefits to employees. The Road Commission receives an actuarial valuation for pension and an alternative measurement method calculation permitted by Governmental Accounting Standards Board (GASB) 45 for OPEB to compute the annual required contribution (ARC) necessary to fund the obligations over the remaining amortization period. In the General Fund, pension and OPEB cost recognition occurs as contributions are made. For the government-wide statements, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest, and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Road Commission currently does not have any items that qualify for reporting in this category.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission had an item which is reported on the General Fund balance sheet (modified accrual basis of accounting) for unavailable revenues due to an MDOT audit adjustment that was not collected within the 60 day availability period.

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

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

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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

Upcoming Accounting Pronouncements -

The Governmental Accounting Standards Board (GASB) issued the following statement that will have an impact on the Road Commission's financial statement when adopted. The Road Commission is currently evaluating the implications of the pronouncement.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* was issued in June 2012 and will become effective for the Road Commission's December 31, 2015 fiscal year. The statement requires governments providing defined benefit plans to report the net pension liability in their statement of net position. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expenses.

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

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

Fund Balance - General Fund	\$ 4,640,858
Capital assets used in governmental activities are not financial resources and therefore are not reported in the General Fund financials	
Add - capital assets	142,484,922
Deduct - accumulated depreciation	(51,347,965)
Long-term liabilities that are not due in the current period therefore not reported in the General Fund statements	
Accrued vacation and sick	(967,010)
Net OPEB obligation	(7,541,035)
Capital lease obligation	(167,839)
Deferred inflows of resources in General Fund due to not meeting availability criteria under modified accrual are susceptible to full accrual on the government-wide statements	100,788
Net Position - Governmental Activities	\$ 87,202,719

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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

Change in Fund Balance - General Fund	\$	371,761
<p>The General Fund reports capital outlay as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense</p>		
Add – capital outlay and infrastructure		6,797,755
Deduct – depreciation	(3,769,557)
<p>Revenues are deferred in the General Fund because they do not provide current financial resources that are reported in the government-wide statement of activities</p>		
		93,581
<p>The issuance of long-term debt provides current financial resources to the General Fund, while the repayment of the principal consumes the current financial resources to the General Fund. Neither transaction, however, has any effect on net position.</p>		
Principal payments on capital lease		59,161
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the General Fund -</p>		
Increase in accrued sick and vacation	(23,649)
Increase in other postemployment benefits	(895,746)
Lease proceeds	(227,000)
Change in Net Position - Statement of Activities	\$	2,406,306

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Compliance -

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

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

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

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

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

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. The following expenditures at December, 31, 2013 were in excess of appropriations:

	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Primary construction - capacity improvements	\$ 1,450,715	\$ 1,864,089	\$ 413,374
Primary preservation - structural improvements	256,847	3,147,133	2,890,286
Local preservation - structural improvements	1,031,340	1,302,587	271,247
State trunkline maintenance	1,456,924	1,731,068	274,144
State trunkline nonmaintenance	273,654	274,740	1,086
Capital outlay - net	(194,203)	(121,436)	72,767
Debt service	-	59,161	59,161

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2013, the carrying amount of deposits and investments is as follows:

Cash on Hand - Petty Cash	<u>\$ 300</u>
Deposits with Financial Institutions -	
Imprest Checking	213,828
Checking maintained by County Treasurer	<u>446,198</u>
	660,026
Investments -	
Investments maintained by County Treasurer	<u>2,309,106</u>
	<u>\$ 2,969,432</u>

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

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

The Road Commission's deposits consist of demand accounts. At December 31, 2013, the carrying amount of the Road Commission's deposits is \$660,026 and the bank balance is \$956,751 of which \$250,000 is insured by depository insurance and \$706,751 is uninsured and uncollateralized.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

Investments -

The County Treasurer on behalf of the Road Commission also invests into certificates of deposit, governmental obligations, commercial paper and money market funds through pooled investments. Information regarding these investments and risk associated with these investments may be obtained from the Bay County Financial Report for the year ended December 31, 2013.

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

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

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

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other government units as of December 31, 2013 consists of the following:

State -	
Michigan Transportation Funds	\$ 1,217,522
Trunkline Maintenance	374,144
Trunkline Non-maintenance	993
Transportation Department - Other	<u>100,788</u>
	<u>\$ 1,693,447</u>
Local -	
Other	<u>\$ 122,964</u>

NOTE 6 - INVENTORIES:

The inventory balance of \$640,974 at December 31, 2013 consisted of \$458,256 of road materials and \$182,718 of equipment parts and materials.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2013	Additions	Deletions/ Removals	Balance December 31, 2013
Capital Assets, not being depreciated -				
Land	\$ 505,981	\$ -	\$ -	\$ 505,981
Land Improvements	51,114,202	2,755,046	-	53,869,248
Right-of-Ways	<u>349,661</u>	-	-	<u>349,661</u>
Total Capital Assets, not being depreciated	<u>51,969,844</u>	<u>2,755,046</u>	-	<u>54,724,890</u>
Capital Assets, being depreciated -				
Buildings and Improvements	2,775,336	59,120	-	2,834,456
Road Equipment	10,273,636	355,820	116,776	10,512,680
Shop Equipment	207,639	9,986	-	217,625
Office Equipment	158,484	27,121	-	185,605
Engineering Equipment	199,350	16,999	-	216,349
Yard and Storage	1,376,921	14,900	-	1,391,821
Infrastructure -				
Roads	51,344,856	3,523,021	2,088,982	52,778,895
Bridges	18,874,328	35,742	-	18,910,070
Traffic Signals	659,494	-	-	659,494
Depletable assets	<u>53,037</u>	-	-	<u>53,037</u>
	<u>85,923,081</u>	<u>4,042,709</u>	<u>2,205,758</u>	<u>87,760,032</u>
Less - accumulated depreciation for -				
Buildings and Improvements	1,905,482	63,488	-	1,968,970
Road Equipment	10,066,361	446,309	116,776	10,395,894
Shop Equipment	186,971	10,560	-	197,531
Office Equipment	78,215	11,987	-	90,202
Engineering Equipment	147,080	14,064	-	161,144
Yard and Storage	1,076,237	58,974	-	1,135,211
Infrastructure -				
Roads	27,087,014	2,738,916	2,088,982	27,736,948
Bridges	8,904,237	392,267	-	9,296,504
Traffic Signals	317,966	32,992	-	350,958
Depletable Assets	<u>14,603</u>	-	-	<u>14,603</u>
	<u>49,784,166</u>	<u>3,769,557</u>	<u>2,205,758</u>	<u>51,347,965</u>
Total Capital Assets, being depreciated, net	<u>36,138,915</u>	<u>273,152</u>	-	<u>36,412,067</u>
Governmental Activity Capital Assets, net	<u>\$ 88,108,759</u>	<u>\$ 3,028,198</u>	<u>\$ -</u>	<u>\$ 91,136,957</u>

Total depreciation for the year ended December 31, 2013 was \$3,769,557.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 - FEDERAL AWARDS:

It is required by MDOT that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2013, the Road Commission of Bay County had less than \$500,000 of force account expenditures applicable to federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

NOTE 9 - ADVANCES:

Advances of \$319,085 at December 31, 2013, represent money advanced by the State of Michigan under the maintenance contract the Road Commission has with the State, for working capital and for equipment purchases. Both State advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance by use:

Trunkline maintenance	\$	129,323
Equipment		<u>189,762</u>
		<u>\$ 319,085</u>

NOTE 10 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2013:

	Balance January 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2013</u>	Due Within <u>One Year</u>
Accrued sick & vacation	\$ 943,361	\$ 320,206	\$ 296,557	\$ 967,010	\$ 200,000
Net OPEB obligation	6,645,289	2,004,263	1,108,517	7,541,035	-
Street sweeper capital lease	<u>-</u>	<u>227,000</u>	<u>59,161</u>	<u>167,839</u>	<u>54,384</u>
	<u>\$ 7,588,650</u>	<u>\$ 2,551,469</u>	<u>\$ 1,464,235</u>	<u>\$ 8,675,884</u>	<u>\$ 254,384</u>

Accrued Sick and Vacation -

Employees are granted sick leave and vacation in varying amounts based on the Road Commission's administrative policy and contracts with union employees. In accordance with these policies and contracts, individual employees have a vested right upon termination of employment to receive payment of unused sick and vacation. The dollar amount of these vested rights, which has been accrued on the government-wide financial statements, amounted to \$751,185 for sick leave and \$215,825 for vacation at December 31, 2013.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

Net OPEB Obligation -

In addition to the pension benefits, the Road Commission provides postemployment healthcare benefits for eligible retirees as described in Note 13.

Street Sweeper Capital Lease -

The Road Commission entered into a lease purchase agreement for a street sweeper in the amount of \$235,000 with an \$8,000 trade-in allowance. Payment is due in annual installments of \$59,161, including interest of 2.81% through March 11, 2016. The asset has a net book value of \$156,667 at December 31, 2013.

The annual requirements for the capital lease are as follows:

	Principal	Interest	Total
2014	\$ 54,384	\$ 4,777	\$ 59,161
2015	55,932	3,229	59,161
2016	57,523	1,638	59,161
	\$ 167,839	\$ 9,644	\$ 177,483

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

The Bay County Road Commission, as a component unit of Bay County, participates in the Bay County Retirement System. The Retirement system is a single employer, defined benefit pension plan, which was established by County ordinance to provide retirement, disability and death benefits for substantially all employees of Bay County. The benefit provisions are governed by Michigan Public Act of 1984, as amended.

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 – Suite 706, Bay City, MI 48708-6128.

Funding Policy -

The County's policy is to fund normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The provisions of the Plan require the County to contribute at an actuarially determined rate, which for 2013 was 20.78% of annual covered payroll. Plan members contribute at a rate of 4% for nonunion and 5% for union of their annual covered salary. The Plan benefit provisions and contribution requirements of plan members and the County are established and may be amended by the Board of Commissioners, who administers the plan, in accordance with County policies, union contracts, and plan provisions.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

Annual Pension Costs -

During the year ended December 31, 2013, the Road Commission's annual pension cost of \$647,209 was equal to the required actual contributions.

The required contribution rate was determined as part of the December 31, 2011 actuarial valuation using the individual entry age normal cost method. The actuarial assumptions include (a) 7.5% net investment rate of return, and (b) projected salary increases of 3.5% pay inflation plus merit and longevity increases ranging from 1.0% to 8.0%. There are no projected cost of living adjustments. The actuarial value was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The Bay County Road Commission unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed period of 30 years.

Schedule of Funding Progress -

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
2010*	\$ 24,781,805	\$ 28,383,537	\$ 3,601,732	87.31%	\$ 2,810,482	128.15%
2011*	23,835,212	29,094,601	5,259,389	81.90	2,902,123	181.23
2012	23,046,574	28,945,653	5,899,079	79.60	2,873,700	205.28

*Plan amended

Schedule of Employer Contributions -

Year Ended December 31,	Road Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2011	\$ 578,071	100%	\$ -
2012	523,022	100	-
2013	647,209	100	-

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 11, the Bay County Road Commission provides postemployment benefits consisting of health, dental, vision, life and prescription drug coverage, to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service, age 60 with 10 years of service, (after 2007 for new hires) or with 30 years of service regardless of age.

During 2002 the Road Commission starting participating in the Bay County Public Employee Health Care Plan, which sponsors a Voluntary Employees Beneficiary Association (VEBA) trust (the "Plan"). The plan is a single-employer defined benefit plan established by the County Board of Commissioners who has the authority to establish and amend benefit provisions.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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 – Suite 706, Bay City, MI 48708-6128.

Funding Policy -

The Road Commission funds the benefits on a pay-as-you-go method for current retirees and contributes to the County's VEBA plan for future benefits of active employees as funds are available. The plan requires no member contributions for Road Commission employees.

Annual Postemployment Benefit Costs -

During the year ended December 31, 2013, employer contributions of \$1,108,517 were made by the Road Commission. Employer contributions represented 38.2% of covered payroll. The actuarial valuation dated December 31, 2011 determined a contribution rate for calendar year 2013 of 72.5% of covered payroll for future benefits of active employees.

The required contribution rate was determined as part of the December 31, 2011 actuarial valuation using the individual entry age actuarial cost method. The actuarial assumptions included (a) 6% net investment rate of return for active employees, (b) projected salary increases of 4.0% plus merit and longevity increases ranging from 1.0% to 8.0% per year, and (c) projected health care premium increases of 4% to 9% per year. The actuarial value was determined using techniques that smooth the effect of short-term volatility in the market of investments over a five-year period. The plan unfunded actuarial accrued liability is being amortized by level percent of payroll contributions on an open period over 20 years.

The actuarial assumptions and determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Annual OPEB Cost and Net OPEB Obligation -

The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding necessary to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) amortized over a period of twenty years. The Road Commission's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation are as follows:

Annual required contribution	\$ 2,184,913
Interest on net OPEB obligation	398,717
Adjustment to annual required contribution	(579,367)
Annual OPEB cost (expense)	2,004,263
Contributions made	(1,108,517)
Increase in net OPEB obligation	895,746
NET OPEB obligation – beginning of year	<u>6,645,289</u>
NET OPEB obligation – end of year	<u>\$ 7,541,035</u>

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

Schedule of Funding Progress -

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
2007	\$ 721,000	\$ 33,881,726	\$ 33,160,726	2.13 %	\$ 3,267,301	1,015.00 %
2009	607,641	25,314,167	24,706,526	2.40	2,995,142	824.89
2011	638,763	27,399,478	26,760,715	2.30	2,902,123	922.10

Schedule of Employer Contributions -

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2010	\$ 1,983,499	59.53%	\$ 5,549,701
2011	1,981,929	62.68	6,289,267
2012	1,719,560	79.30	6,645,289
2013	2,004,263	55.31	7,541,035

NOTE 13 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

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

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Bay County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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

The Road Commission is self-insured for health care benefits with the administrative services of the program being performed by a health insurance company. The Road Commission makes monthly payments, based on estimated claims and a stop-loss provision, which are adjusted quarterly. The Road Commission pays claims up to \$75,000 per contract per contract year. Stop-loss insurance has been purchased to insure the Road Commission against losses in excess of these limits. Based on past history, the Road Commission has estimated the accrued health care claims, including an estimate for claims incurred but not reported (INBR), of \$72,000 at December 31, 2013, which is recorded as a current liability in the fund financial statements. Changes in the balances of claims liability are as follows:

	2013	2012
Unpaid claims, beginning of year	\$ 72,000	\$ 72,000
Incurred claims (including IBNR's)	2,643,723	2,561,916
Claims paid	(2,643,723)	(2,561,916)
Unpaid claims, end of year	72,000	72,000
Less current portion	72,000	72,000
Non-current Liabilities	\$ -	\$ -

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE:

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard established accounting and financial reporting standards, that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This new guidance is effective for fiscal years beginning after December 15, 2012.

The effect on the Road Commission of adopting this standard is reclassification of deferred revenue (liability category used prior to 2013) on the governmental funds balance sheet for unavailable revenues to deferred inflows of resources as of December 31, 2013. The adoption of this standard has no effect on the change in fund balance for the year ended December 31, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

BAY COUNTY ROAD COMMISSION
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2013

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 43,958	\$ 47,404	\$ 49,099	\$ 1,695
Intergovernmental -				
Federal sources	4,272,423	2,586,314	2,245,246	(341,068)
State sources	7,564,539	7,576,736	8,048,170	471,434
Local sources	2,395,000	1,851,541	2,394,515	542,974
Charges for services	1,564,449	1,738,980	2,014,960	275,980
Interest and rents	30,990	36,495	51,406	14,911
Other	119,301	97,950	118,245	20,295
Total Revenues	15,990,660	13,935,420	14,921,641	986,221
Expenditures:				
Current -				
Primary construction/capacity improvements	5,325,977	1,450,715	1,864,089	(413,374)
Local construction/capacity improvements	416,675	-	-	-
Primary preservation - structural improvements	713,046	256,847	3,147,133	(2,890,286)
Local preservation - structural improvements	1,552,529	1,031,340	1,302,587	(271,247)
Primary routine maintenance	2,415,398	3,405,377	2,459,184	946,193
Local routine maintenance	2,812,701	3,910,798	3,314,313	596,485
State trunkline maintenance	1,551,259	1,456,924	1,731,068	(274,144)
State trunkline nonmaintenance	4,788	273,654	274,740	(1,086)
Administrative- net	855,136	1,108,245	822,613	285,632
Equipment - net	689,012	661,019	(98,763)	759,782
Other	300,000	400,000	22,191	377,809
Capital Outlay - net	(280,728)	(194,203)	(121,436)	(72,767)
Debt Service	-	-	59,161	(59,161)
Total Expenditures	16,355,793	13,760,716	14,776,880	(1,016,164)
Revenues Over (Under) Expenditures	(365,133)	174,704	144,761	(29,943)
Other Financing Sources:				
Lease proceeds	-	-	227,000	227,000
Change in Fund Balance	(365,133)	174,704	371,761	197,057
Fund Balance at January 1, 2013	4,269,097	4,269,097	4,269,097	-
Fund Balance at December 31, 2013	\$ 3,903,964	\$ 4,443,801	\$ 4,640,858	\$ 197,057

SUPPLEMENTARY INFORMATION

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

DETAIL SCHEDULE OF REVENUES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

Revenues:

Permits	\$ 49,099
Federal Sources -	
Surface Transportation Program (STP)	2,193,221
Medicare Part D	52,025
	2,245,246
State Sources -	
Michigan Transportation Funds - Act 51 -	
Engineering	10,000
Urban road	1,202,182
Allocation	6,429,623
Rural Primary D	406,365
	8,048,170
Local Sources -	
Township contributions	1,687,488
Other contributions	707,027
	2,394,515
Charges for Services -	
State trunkline maintenance	1,731,068
State trunkline nonmaintenance	274,740
Salvage sales	9,152
	2,014,960
Interest and rents	51,406
Other -	
Proceeds/gain on equipment disposal	12,000
Sundry refunds	20
Royalty revenue	90,449
Other	15,776
	118,245
Total Revenues	14,921,641
Other Financing Sources:	
Lease proceeds	227,000
	227,000
Total Revenues and Other Sources	\$ 15,148,641

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

DETAIL SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

Expenditures:

Construction/ Capacity Improvements - Primary roads and structures	<u>\$ 1,864,089</u>
Preservation - Structural Improvements Primary roads and structures	3,147,133
Local roads and structures	<u>1,302,587</u>
	<u>4,449,720</u>
Maintenance - Primary roads and structures, winter and traffic control	2,459,184
Local roads and structures, winter and traffic control	<u>3,314,313</u>
	<u>5,773,497</u>
State Maintenance - State Trunkline maintenance	1,731,068
State Trunkline nonmaintenance	<u>274,740</u>
	<u>2,005,808</u>
Equipment - Direct	1,042,208
Indirect	775,833
Operating	517,503
Less - equipment rental	<u>(2,434,307)</u>
	<u>(98,763)</u>
Administrative - Administration	1,082,192
Less - overhead	(188,809)
- handling charges	(66,642)
- purchase discounts	<u>(4,128)</u>
	<u>822,613</u>
Other - Services	<u>22,191</u>
Capital Outlay - Land improvements, building and equipment	483,946
Less - depreciation	<u>(605,382)</u>
	<u>(121,436)</u>
Debt Service - Principal retirement	<u>59,161</u>
Total Expenditures	<u><u>\$ 14,776,880</u></u>

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Primary	Local	County	Total
Revenues:				
Permits	\$ 12,345	\$ 9,520	\$ 27,234	\$ 49,099
Intergovernmental -				
Federal sources	2,242,838	2,408	-	2,245,246
State sources	6,017,670	2,030,500	-	8,048,170
Local sources	-	2,394,515	-	2,394,515
Charges for services	-	-	2,014,960	2,014,960
Interest and rents	21,719	-	29,687	51,406
Other	-	90,449	27,796	118,245
Total Revenues	8,294,572	4,527,392	2,099,677	14,921,641
Expenditures:				
Construction/ capacity improvements	1,864,089	-	-	1,864,089
Preservation - structural improvements	3,147,133	1,302,587	-	4,449,720
Maintenance	2,459,184	3,314,313	-	5,773,497
Other-				
Trunkline maintenance	-	-	1,731,068	1,731,068
Trunkline nonmaintenance	-	-	274,740	274,740
Administrative - net	508,405	314,208	-	822,613
Equipment - net	(28,876)	(36,625)	(33,262)	(98,763)
Other	-	-	22,191	22,191
Capital outlay - net	-	-	(121,436)	(121,436)
Debt service	-	-	59,161	59,161
Total Expenditures	7,949,935	4,894,483	1,932,462	14,776,880
Revenues over (under) expenditures before other financing sources and optional transfers	344,637	(367,091)	167,215	144,761
Other Financing Sources:				
Lease proceeds	-	-	227,000	227,000
Revenues over (under) expenditures before optional transfers	344,637	(367,091)	394,215	371,761
Optional transfer	(367,091)	367,091	-	-
Changes in Fund Balance by Fund Balance Sub-Accounts	(22,454)	-	394,215	371,761
Fund Balance at January 1, 2013	1,804,095	-	2,465,002	4,269,097
Fund Balance at December 31, 2013	\$ 1,781,641	\$ -	\$ 2,859,217	\$ 4,640,858