

Washtenaw County Road Commission
(a component unit of Washtenaw County)

Financial Report
with Supplemental Information
December 31, 2012

Washtenaw County Road Commission

Contents

Report Letter	1-3
Management's Discussion and Analysis	4-11
Basic Financial Statements - Government-wide/Governmental Funds Financial Statements	
Governmental Funds Balance Sheet/Statement of Net Position	12
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities	13
Notes to Financial Statements	14-33
Required Supplemental Information	34
Budgetary Comparison Schedule - Road Fund	35
Note to Required Supplemental Information	36
Other Supplemental Information	37
Analysis of Changes in Road Fund Balance	38
Note to Other Supplemental Information	39

Independent Auditor's Report

To the Board of Road Commissioners
Washtenaw County Road Commission

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Washtenaw County Road Commission (a component unit of Washtenaw County) (the "Road Commission") as of and for the year ended December 31, 2012, 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 an opinion on these basic 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 the 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 of material misstatement.

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Washtenaw County Road Commission at December 31, 2012 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in 2012, the Road Commission adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Washtenaw County Road Commission's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Board of Road Commissioners
Washtenaw County Road Commission

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2013 on our consideration of the Washtenaw 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. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

March 14, 2013

Washtenaw County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Washtenaw County Road Commission (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2012. Please read this in conjunction with the financial statements.

Using this Annual Report

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

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

Supplemental information is also provided for additional information purposes.

Financial Analysis

The net position of the Road Commission is summarized for the purpose of determining the overall fiscal position. As shown on the net position chart below, the Road Commission's assets exceeded liabilities by \$263,748,409 at the end of the fiscal year.

When comparing this fiscal year to the previous year, net position has increased by \$7,013,468. This is primarily attributed to the addition of infrastructure assets.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below:

Condensed Statement of Net Position

	Governmental Activities	
	December 31	
	2012	2011
Assets		
Current and other assets	\$ 23,160,183	\$ 12,600,348
Capital assets	255,494,461	250,218,966
Total assets	278,654,644	262,819,314
Liabilities		
Other liabilities	6,625,240	3,603,112
Long-term liabilities outstanding	8,280,995	2,481,261
Total liabilities	14,906,235	6,084,373
Net Position		
Net investment in capital assets	249,476,689	248,123,966
Restricted - Special assessments	1,660,740	951,529
Restricted - Debt service	3,885,238	-
Unrestricted	8,725,742	7,659,446
Total net position	<u>\$ 263,748,409</u>	<u>\$ 256,734,941</u>

Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2012	2011
Revenue	\$ 37,637,135	\$ 34,256,324
Expenses	30,623,667	31,677,910
Change in Net Position	<u>\$ 7,013,468</u>	<u>\$ 2,578,414</u>

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

The Road Commission is in its seventh year of a department-based budget. Our management staff has steadily become much more proficient with our budgeting process. Their active participation has afforded each department the opportunity to provide feedback as well as monitor their sectional budgets. The process continues to be further refined as more financial history is available for comparisons and projection purposes.

While winter in 2012 was below normal levels, the Road Commission contributed to emergency disaster relief efforts necessitated by a devastating tornado in Dexter. On Thursday afternoon, March 15, 2012, an EF-3 tornado struck Washtenaw County. According to the National Weather Service, the tornado was a massive storm nearly a half-mile wide in some places, packing winds of 130 to 140 mph. It left a path of destruction 7.2 miles long. Areas of Dexter Township and the Village of Dexter bore the brunt of the tornado damage with 266 residences and six businesses impacted, at an estimated cost of \$8.3 million. All of the winter savings from the beginning of the year went into our disaster relief efforts with no financial assistance provided from either the State or federal government.

Per Public Act 143, the Road Commission sold bonds for \$6,000,000 on the behalf of Ypsilanti Township for various road improvements. This demonstrated Ypsilanti Township's commitment to their roads as well as promoted the collaborative efforts with the Road Commission. During the process, the Road Commission received a AAA bond rating. This is the highest rating an agency can receive and was the result of our continued due diligence with regard to fiduciary responsibility. The lowest bidder's exceptionally low interest rate of 1.74 percent saved Ypsilanti Township a considerable amount of money.

The Road Commission was able to resolve both union contracts in 2012. The year began with reduced benefits for all current and future non-union employees. The costs of benefits continue to escalate and the Road Commission was on an unsustainable path. Recognizing these challenges, all employee groups stepped up and agreed to some necessary changes as the agency struggled with rising costs of doing business and inadequate funding. During the course of the year, both the AFSCME and Teamster union groups resolved their contracts and helped contribute to getting the Road Commission on a more sustainable fiscal path. While none of these benefit changes were easy, they were extremely important in order for the Road Commission to continue to provide essential services to our community. The Road Commission acknowledges the sacrifices of all of its employees and applauds the leaders of each group as we face all challenges the future holds as one cohesive unit.

A high volume of construction projects was accomplished due to state and federal grants as well as developer funded projects. Some of these funding sources allowed the Road Commission to accelerate the completion of future projects with minimal contributions. This was accomplished with fewer employees in the Engineering Department than 2011. The accelerated project funding will be completed by 2012, after which funding is projected to return to below traditional levels.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

The Road Commission amended its 2012 budget on three occasions during the year to reflect changes in the level of funding from the Michigan Transportation Fund (MTF) revenue and status changes in budgeted projects. The actual 2012 revenue was approximately \$969,000 higher than the amended budget due to a higher amount of reimbursable federal and state funds. The actual 2012 expenditures were approximately \$748,000 lower than the amended budget due to a mild winter in the final months of the year. The Road Commission continued to fund a post-employment trust that was established in 2006 to address the GASB No. 43 and No. 45 other postemployment benefits reporting conditions (OPEB). The funding ratio has increased from 0 percent in 2006 to 15 percent in 2012.

Traditionally, federal and state grants have been used for construction-only purposes. This continues to be modified as more nonconstruction activities have become eligible and are receiving reimbursement from these sources. Due to a higher level of staff time reimbursed with federal dollars, the Road Commission was subjected to a single audit. The single audit requires agencies that receive over \$500,000 in federal funds to conduct an additional audit for the applicable projects in order to comply with the United States Office of Management and Budget (OMB) Circular A-128.

Since MTF continues to not provide adequate funding to meet minimal road condition needs, staff is looking toward the local community for assistance. A portion of engineering as well as operations staff services continues to be funded with other sources in 2012. A number of townships have formed road committees that are effective in communicating the needs of the citizens as well as assisting to educate their residents on the Road Commission's challenges. Two new special assessment districts (SAD) were set up in 2012. This served as a partnership with the community to accomplish some much needed repairs. The Road Commission intends on continuing to pursue SADs in 2013.

Because of the increasing number of special assessment bonds as well as the \$6,000,000 Ypsilanti Township bond issue, the Road Commission explored different mechanisms for paying our debt service. The Road Commission ultimately decided to partner with The Huntington Bank as our paying agent for all bond issues. This will ensure that all payments are made timely as we continue to strive to maintain our AAA bond rating.

Lodi Township residents decided to take matters into their own hands with regard to Waters Road by utilizing Public Act 188. They assessed themselves and the Road Commission collaboratively assisted with the improvements to Waters Road.

In an effort of continuous improvement, the Road Commission completed the implementation of electronic timekeeping in 2012. This initiative involves both office and field staff and was successfully integrated organization-wide. It is streamlining the time submittal process and will allow each employee to retain ownership over their payroll information. Supervisors are able to review and submit the electronic information and have electronic access to historical payroll data for research and analysis. The paperless payroll process also is more straightforward and timely in its processing. The kiosk also has the ability for employees to account for inventory usage, eliminating multiple steps from the previous manual process.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Another successful initiative that was completed in 2012 was a redesign of the Road Commission's website (www.wcroads.org). Our old website served us well for many years, but technology continues to develop and with this redesign we are able to take advantage of the most current tools making our agency even more streamlined while continuing the level of customer service that our constituents have come to expect. With a drastically reduced staffing level, our previous website had become cumbersome. As our site was also due for a new, fresh look, this was the perfect time to convert our website into a web content management system. This type of database software system simplifies collaboration and provides administration tools designed to offer "non-technical users" relative ease in creating and managing website content. Our new dashboard, a work in progress, offers enhanced government transparency by providing more information that is easily accessed. This tool provides a quick assessment of ours and other road commissions' performance in key areas. Additional information will become available as the Michigan Transportation Asset Management Council continues its development.

Ten years ago the Road Commission had to close our satellite location in Salem Township. The Yard was no longer functional and our District 6 crew had to relocate to our Southeast Service Center in Pittsfield Township. An opportunity presented itself in 2012 and the Road Commission was successful in acquiring property in Salem Township for a future Yard 6. The location is ideal and the Road Commission is hopeful that this can be accomplished in the near future. Operating out of this new location will greatly enhance our service delivery to the residents in the area and will eliminate commute time for the crew that services the northeast portion of the county.

Another needed capital investment was a new salt barn for District 4 in Manchester. The previous barn, built in 1978, was beyond repair and repair costs continued to increase. The Road Commission partnered with the Michigan Department of Transportation to complete this initiative in 2012. The new barn has a larger storage capacity and will be able to store both salt and sand. A new, much larger doorway will also allow all delivery vehicles and our equipment unobstructed access.

Our organization hired temporary drivers to assist us with winter maintenance this year. This has been a successful initiative as there were highly qualified candidates to choose from. This change in staffing allows the Road Commission to handle one of the highest demands on the organization without incurring legacy costs.

Our agency continues to produce our own cold patch in 2012. This has proven to be cost effective in that it is cheaper to produce and the product is of the highest quality.

Capital Assets

The Road Commission had \$255,494,461 in capital assets at the end of the fiscal year. The reason for the approximately \$5.3 million increase from the previous year is twofold: (1) purchases of new equipment and various capital improvements at Yard 3 and (2) an increase in infrastructure costs. Investment in infrastructure continues to be the largest asset class.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2012	2011
Land	\$ 27,054,202	\$ 26,409,188
Buildings and storage bins	8,972,413	8,815,239
Road equipment	1,595,269	1,732,790
Other equipment	278,499	301,766
Infrastructure	217,594,078	212,959,983
Total	<u>\$ 255,494,461</u>	<u>\$ 250,218,966</u>

Debt Administration

In 2012, the Road Commission issued special assessment bonds of \$738,000, which represent the financing of public improvements that benefit specific districts (Scio Township); these districts are specifically assessed for the cost of the improvement. In 2012, the Road Commission also issued Michigan Transportation Fund Notes of \$6,000,000. The proceeds of these notes will be used to finance public improvements within the Township of Ypsilanti. Ypsilanti Township will provide the Road Fund with the required debt service funding to repay the notes.

At December 31, 2012, the Road Commission had \$8,024,000 in total outstanding notes and bonds payable.

Economic Factors and Next Year's Budget

The general economic activity in Michigan continued to stagnate during 2012 which resulted in Michigan Transportation Fund (MTF) revenues increasing marginally by 1.6 percent when compared to 2011 receipts. The Road Commission has received contradictory reports regarding the MTF funding available in 2013 and has chosen to use a flat projection. The budgeted MTF for 2013 is lower than what was received in 2003. This creates a significant challenge as normal costs of doing business are much higher than 10 years ago. The antiquated MTF formula that was derived in 1951 while having been modified, continues to work against the Road Commission as it doesn't account for fuel efficiencies or the change in vehicle driving/buying habits. Without any changes to the formula, all local agencies that depend on this will continue to suffer. The actual 2013 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

The hiring freeze that was imposed by the Road Commission in 2006 continues to be effective in reducing the work force largely through attrition. The Road Commission staffing levels are as low as they were in the 1960s. This presents many challenges as the county has experienced tremendous growth since then and the demands and intricacies of our services have grown accordingly. We are forced to do less with less and the public will certainly be impacted by this significantly reduced workforce. This very well could be the new reality for not only our agency but all public agencies as it is driven by a sustained economic downturn coupled with an antagonistic political environment.

Overall, the 2013 budget includes higher expenditures than 2012 primarily due to an increase in the expected level of reimbursable federal aid projects. Revenue is expected to be lower in 2013 primarily due to the decrease in local contributory projects.

The Road Commission is not projected to have adequate funding to address the OPEB in 2013. This will be reviewed during the first quarter to determine if the financial position of the Road Commission improves to the extent that funds are available to address this issue.

The services of Brown and Brown of Central Michigan d/b/a Public Employee Benefit Solutions (PEBS) continue to provide a value added to the Road Commission. They serve as an agent and advocate for both the organization and employees with a mutually beneficial goal of cost containment for all benefits while minimizing the impact on benefit levels. PEBS has assisted the Road Commission with information and implementation regarding the Patient Protection and Affordable Care Act (PPACA). This will be an ongoing process as other measures of health care reform are implemented. Per their direction, the Road Commission began self-funding its health insurance in 2009 with better stop gap protections than in previous years. In addition, a solicitation for proposals was conducted by PEBS for other current benefit plans to ensure that all benefit programs utilize the most cost effective plans. All changes that were implemented have allowed the Road Commission to contain costs while minimizing the impact on employees. 2009 was the first year that a cost share for health insurance was implemented for all employees based on illustrative rates exceeding bargaining unit contract rates. This also applies to AFSCME and nonunion employees that retired after December 31, 2009. The Road Commission also continues to apply for federal reimbursement for Medicare Part D applicable costs.

The governor signed SB 7 (Public Act 152 of 2011), sponsored by Sen. Jansen (R-Kent), which creates the "Publicly Funded Health Insurance Contribution Act" and imposes certain limits on the portion of employees' medical benefit plan coverage paid for by public employers. This created "hard caps" that the Road Commission cannot exceed for health insurance costs in 2013. The Road Commission revised its base insurance plan in order to meet this requirement. The ultimate goal is cost containment although the law doesn't dictate what should be done with these health care savings. Lansing continues to challenge road commissions to follow best practice and is poised to impose additional legislation that is sure to impact our agency. The only hope is that these are well thought out and not "knee jerk" reactions to what is perceived to be problematic.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

The greatest challenge for the Road Commission remains the lack of funding. The lawmakers in Lansing continue to acknowledge this shortfall but have yet to implement any substantial change to generate additional funds to try to keep pace with our quickly deteriorating infrastructure.

Contacting the Road Commission's Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Washtenaw County Road Commission, 555 N. Zeeb Road, Ann Arbor, MI 48103.

Washtenaw County Road Commission

Governmental Funds Balance Sheet/Statement of Net Position December 31, 2012

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
Assets					
Cash and investments (Note 3)	\$ 8,411,484	\$ 96,207	\$ 8,507,691	\$ -	\$ 8,507,691
Accounts receivable (Note 1)	3,595,697	-	3,595,697	-	3,595,697
Inventory	1,116,111	-	1,116,111	-	1,116,111
Restricted assets (Note 1)	2,114,762	-	2,114,762	-	2,114,762
Prepaid items and other	163,304	-	163,304	-	163,304
Special assessments receivable	78,545	1,485,988	1,564,533	-	1,564,533
Long-term receivable (Note 5)	6,000,000	-	6,000,000	-	6,000,000
Net pension asset (Note 10)	-	-	-	98,085	98,085
Capital assets - Net (Note 4):					
Assets being depreciated	-	-	-	228,440,259	228,440,259
Assets not being depreciated	-	-	-	27,054,202	27,054,202
Total assets	\$ 21,479,903	\$ 1,582,195	\$ 23,062,098	255,592,546	278,654,644
Liabilities					
Accounts payable	\$ 999,508	\$ -	\$ 999,508	-	999,508
Advances (Note 1)	1,846,534	-	1,846,534	-	1,846,534
Accrued liabilities	357,762	-	357,762	86,349	444,111
Unearned revenue (Note 1)	2,114,762	-	2,114,762	-	2,114,762
Bonds and contracts payable, due within one year (Note 7)	-	-	-	1,220,325	1,220,325
Bonds and contracts payable, due in more than one year (Note 7)	-	-	-	6,912,209	6,912,209
Other long-term liabilities, due in more than one year (Note 6)	-	-	-	1,368,786	1,368,786
Total liabilities	5,318,566	-	5,318,566	9,587,669	14,906,235
Deferred Inflows of Resources - Deferred revenue - Unavailable (Note 1)					
	3,963,783	1,485,988	5,449,771	(5,449,771)	-
Fund Balance					
Nonspendable:					
Inventory	1,116,111	-	1,116,111	(1,116,111)	-
Prepaid items	163,304	-	163,304	(163,304)	-
Restricted:					
Unspent bond proceeds	2,114,762	-	2,114,762	(2,114,762)	-
Special assessments	-	96,207	96,207	(96,207)	-
Assigned:					
Employee retirement	3,010,323	-	3,010,323	(3,010,323)	-
Other postemployment benefits	456,833	-	456,833	(456,833)	-
Employee health insurance	462,332	-	462,332	(462,332)	-
Capital improvements	3,789,288	-	3,789,288	(3,789,288)	-
Insurance retention	613,601	-	613,601	(613,601)	-
Subsequent year's budget shortfall	471,000	-	471,000	(471,000)	-
Total fund balance	12,197,554	96,207	12,293,761	(12,293,761)	-
Total liabilities, deferred inflows, and fund balance	\$ 21,479,903	\$ 1,582,195	\$ 23,062,098		
Net Position					
Net investment in capital assets				249,476,689	249,476,689
Restricted - Special assessments				1,660,740	1,660,740
Restricted - Debt service				3,885,238	3,885,238
Unrestricted				8,725,742	8,725,742
Total net position				\$ 263,748,409	\$ 263,748,409

Washtenaw County Road Commission

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2012

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
Revenue					
State aid - Michigan Transportation Fund	\$ 16,701,630	\$ -	\$ 16,701,630	\$ -	\$ 16,701,630
State trunkline maintenance	2,511,117	-	2,511,117	-	2,511,117
Special assessments revenue	-	173,995	173,995	669,208	843,203
Federal and state sources	5,202,756	-	5,202,756	-	5,202,756
Revenue from local governments	5,061,064	-	5,061,064	3,885,238	8,946,302
Contributions in-kind	-	-	-	1,440,800	1,440,800
Gain on sale of equipment	-	-	-	18,575	18,575
Interest, fees, and other revenue	1,972,752	-	1,972,752	-	1,972,752
Total revenue	31,449,319	173,995	31,623,314	6,013,821	37,637,135
Expenditures/Expenses					
Administration	1,162,317	-	1,162,317	(455,879)	706,438
Operations	10,358,565	-	10,358,565	(4,022,777)	6,335,788
Engineering	2,136,817	-	2,136,817	(38,862)	2,097,955
Nondepartmental	5,573,156	-	5,573,156	-	5,573,156
Project expenditures - Road improvement program and construction	15,019,513	-	15,019,513	(15,019,513)	-
Depreciation expense	-	-	-	15,771,170	15,771,170
Debt service:					
Principal retirement	710,000	99,000	809,000	(809,000)	-
Interest and other charges	44,225	34,992	79,217	59,943	139,160
Total expenditures/expenses	35,004,593	133,992	35,138,585	(4,514,918)	30,623,667
Excess of Revenue (Under) Over Expenditures/Expenses	(3,555,274)	40,003	(3,515,271)	10,528,739	7,013,468
Other Financing Sources					
Sale of equipment	18,575	-	18,575	(18,575)	-
Premium on the issuance of long-term debt	115,140	-	115,140	(115,140)	-
Proceeds on the issuance of long-term debt	6,738,000	-	6,738,000	(6,738,000)	-
Total other financing sources	6,871,715	-	6,871,715	(6,871,715)	-
Net Change in Fund Balances/ Net Position	3,316,441	40,003	3,356,444	3,657,024	7,013,468
Fund Balances/Net Position - January 1, 2012	8,881,113	56,204	8,937,317	247,797,624	256,734,941
Fund Balances/Net Position - December 31, 2012	<u>\$ 12,197,554</u>	<u>\$ 96,207</u>	<u>\$ 12,293,761</u>	<u>\$ 251,454,648</u>	<u>\$ 263,748,409</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 1 - Significant Accounting Policies

The Washtenaw County Road Commission (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Washtenaw, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Washtenaw, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - 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. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for the governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

The major individual governmental fund is reported as a separate column in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 1 - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as 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 Road Commission considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Special assessment revenue collected within 60 days of year end is not considered available to pay the debt service liabilities of the current period and is therefore recognized when received.

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, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Commission reports the following major governmental fund:

Road Fund - The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

The Road Commission also reports the following additional fund:

Subdivision Improvement Fund - The Subdivision Improvement Fund (a nonmajor governmental fund) is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 1 - Significant Accounting Policies (Continued)

Accounts, Long-term Receivables, and Deferred Revenue- Accounts and long-term receivables are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts and long-term receivables since it is the opinion of management that those receivables are collectible in full. As of December 31, 2012, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessment receivables	\$ 1,564,533	\$ -
Due from local governments	3,885,238	2,114,762

Advances - Governmental funds report advances in connection with resources that have been received but not yet earned. At the end of the current fiscal year, total advances were \$1,846,534.

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

Restricted Assets - Restricted assets represent unspent bond proceeds that are required to be set aside for road construction projects.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The related revenue is recorded as contributions in-kind.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years
Roads	5 to 30 years
Other infrastructure	12 to 50 years

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pension and Other Postemployment Benefits - The Road Commission offers both pension and retiree healthcare benefits to employees. The Road Commission receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligations over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 1 - Significant Accounting Policies (Continued)

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

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Commissioners for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Commissioners.
- **Assigned:** Intent to spend resources on specific purposes expressed by the governing body or the managing director or finance director, who is authorized by resolution approved by the governing body to make assignments
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the Road Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the Road Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Road Commission's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Road Commission's policy to spend funds in this order: committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 1 - Significant Accounting Policies (Continued)

Accounting and Reporting Change - During the year, the Road Commission adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. The statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statement impacts the format and reporting of the balance sheet at the government-wide level and also at the fund level.

During the year, the Road Commission also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

Upcoming Reporting Change - In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2015.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental fund because of the following:

Governmental fund fund balance	\$ 12,293,761
Capital assets used in governmental activities are not financial resources and are not reported in the funds	255,494,461
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(8,132,534)
Compensated absences are not reported in the funds	(695,071)
Net pension assets are not reported in the funds	98,085
Net other postemployment obligations are not reported in the funds	(673,715)
Special assessment and long-term receivables are expected to be collected over several years and are not available to pay for current year expenditures	5,449,771
Accrued interest payable is not reported in the funds	<u>(86,349)</u>
Government-wide net position	<u><u>\$ 263,748,409</u></u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net Change in Fund Balances - Total governmental funds

Excess of revenue over expenditures/expenses of the governmental fund	\$	3,356,444
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		5,275,495
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		809,000
Issuance of debt is a revenue in the governmental funds, but not in the statement of activities (where it is recorded as debt)		(6,738,000)
Premiums received on the issuance of debt are an other financing source in the governmental funds, but are amortized over the life of the bonds in the statement of activities		(108,534)
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities		29,802
In the statement of activities, pension contributions in excess of the annual required contribution are reported as net pension assets, whereas in the governmental funds, all pension contributions are reported as expenditures when paid		98,085
In the statement of activities, other postemployment benefits are reported when incurred, whereas in the governmental funds, benefits are reported when paid		(203,327)
In the statement of activities, special assessment revenue is recorded when the assessment is set; it is not reported in the funds until collected or collectible within 60 days of year end		669,208
In the statement of activities, revenue on long-term receivables is recorded when related project expenditures are incurred; it is not reported in the funds until collected or collectible within 60 days of year end		3,885,238
Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the funds only when payment is due		(59,943)
Change in net position of governmental activities	\$	<u>7,013,468</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 3 - Cash and Investments

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

The Road Commission has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to the following risks:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices. At year end, the Road Commission's investments of \$10,453,373 were held by Washtenaw County. The Road Commission's funds are commingled with the County's funds for investment purposes. The County's pool of investments is not rated.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 26,409,188	\$ 645,014	\$ -	\$ 27,054,202
Capital assets being depreciated:				
Buildings and storage bins	14,032,131	511,394	-	14,543,525
Road equipment	13,205,382	409,703	234,951	13,380,134
Other equipment	2,220,319	41,576	-	2,261,895
Brine wells and gravel pits	136,386	-	-	136,386
Infrastructure	<u>370,585,047</u>	<u>19,438,978</u>	<u>-</u>	<u>390,024,025</u>
Subtotal	400,179,265	20,401,651	234,951	420,345,965
Less accumulated depreciation for:				
Buildings and storage bins	(5,216,892)	(354,220)	-	(5,571,112)
Road equipment	(11,472,592)	(547,224)	(234,951)	(11,784,865)
Other equipment	(1,918,553)	(64,843)	-	(1,983,396)
Brine wells and gravel pits	(136,386)	-	-	(136,386)
Infrastructure	<u>(157,625,064)</u>	<u>(14,804,883)</u>	<u>-</u>	<u>(172,429,947)</u>
Subtotal	<u>(176,369,487)</u>	<u>(15,771,170)</u>	<u>(234,951)</u>	<u>(191,905,706)</u>
Net capital assets being depreciated	<u>223,809,778</u>	<u>4,630,481</u>	<u>-</u>	<u>228,440,259</u>
Net capital assets	<u>\$ 250,218,966</u>	<u>\$ 5,275,495</u>	<u>\$ -</u>	<u>\$ 255,494,461</u>

Note 5 - Long-term Receivable

At December 31, 2012, the Road Commission has a long-term receivable due from Ypsilanti Township of \$6 million. The receivable relates to road construction projects in Ypsilanti Township which the Road Commission initially funded by issuing Michigan Transportation Fund Notes. Ypsilanti Township has pledged to make annual payments to the Road Commission equal to the debt service due on the notes. Commencing in 2013, the Road Commission will receive \$600,000 annually for 10 years, plus 6 percent interest due semi-annually.

The revenue associated with the long-term receivable will be recognized in the Road Fund as it becomes available. The revenue will be recognized in the government-wide statements as related project expenses are incurred. For the year ended December 31, 2012, revenue of \$3,885,238 was recognized in the government-wide statements.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 6 - Risk Management and Other Long-term Liabilities

Insurance Programs

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

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 commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

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

As of December 31, 2012, no liability has been reported for healthcare claims since the asserted and unasserted claims estimated by management were deemed to be immaterial.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union employees earn sick and vacation time, while nonunion employees earn annual leave based on time of service with the Road Commission. The estimated compensated absence liability as of December 31, 2012 is \$695,071, a decrease of \$29,802 from December 31, 2011.

Postemployment Benefits Obligation

Other long-term liabilities include the postemployment benefits obligation of \$673,715 as disclosed in Note 9.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2012:

	Interest Rate	Maturing Through	Principal Outstanding
2004 Washtenaw County Refunding Bonds	3.50%	2013	\$ 440,000
2009 Road Special Assessment Bonds	1.35%-3.25%	2019	235,000
2010 Road Special Assessment Bonds	3.79%	2020	291,000
2011 Road Special Assessment Bonds	0.5%-3.5%	2021	320,000
2012 Road Special Assessment Bonds	0.75%-3.25%	2022	738,000
2012 Michigan Transportation Fund Notes, Series 2012	1.00%-2.50%	2022	<u>6,000,000</u>
Total bonded and other contractual indebtedness			<u>\$ 8,024,000</u>

The 2002 Michigan Transportation Fund notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes was used to fund improvements in subdivisions in Ypsilanti Township. These notes were fully extinguished during 2012.

The 2004 Washtenaw County Building Authority Refunding debt represents bonds that were sold on behalf of the Road Commission for the construction of Yard 2.

The 2009 special assessment bonds represent the financing of public improvements that benefit specific districts (Scio Township and Pittsfield Township); these districts are specifically assessed for the cost of the improvement.

The 2010, 2011, and 2012 special assessment bonds represent the financing of public improvements that benefit a specific district (within Scio Township); this district is specifically assessed for the cost of the improvement.

The 2012 Michigan Transportation Fund notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. While this note will be paid by the Road Fund, Ypsilanti Township will provide the Road Fund with the required debt service funding.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2002 Michigan Transportation Fund notes, Series 2002	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ -
2004 Washtenaw County Refunding Bonds	850,000	-	410,000	440,000	440,000
2009 Road Special Assessment Bonds	269,000	-	34,000	235,000	34,000
2010 Road Special Assessment Bonds	327,000	-	36,000	291,000	37,000
2011 Road Special Assessment Bonds	349,000	-	29,000	320,000	36,000
2012 Road Special Assessment Bonds	-	738,000	-	738,000	62,000
2012 Michigan Transportation Fund notes, Series 2012	-	6,000,000	-	6,000,000	600,000
Premium on 2012 MTF Bonds	-	115,140	6,606	108,534	11,325
Total bonded and other contractual indebtedness	<u>\$ 2,095,000</u>	<u>\$ 6,853,140</u>	<u>\$ 815,606</u>	<u>\$ 8,132,534</u>	<u>\$ 1,220,325</u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2012, except liabilities for compensated absences and other postemployment benefit obligations, are as follows:

Years Ending December 31	Principal	Interest	Total
2013	\$ 1,209,000	\$ 176,938	\$ 1,385,938
2014	781,000	141,522	922,522
2015	781,000	132,187	913,187
2016	780,000	116,501	896,501
2017	781,000	100,444	881,444
2018-2022	<u>3,692,000</u>	<u>251,829</u>	<u>3,943,829</u>
Total	<u>\$ 8,024,000</u>	<u>\$ 919,421</u>	<u>\$ 8,943,421</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 7 - Long-term Debt (Continued)

Interest

Interest expense paid by the Road Commission for the year ended December 31, 2012 was approximately \$79,000.

The Road Commission has pledged substantially all revenue of the Subdivision Improvements Fund, net of operating expenses, to repay the above special assessment bonds. Proceeds from the bonds provided for the financing of public improvements that benefit specific districts. The bonds are payable solely from the net revenue of the special assessments. The total remaining principal and interest to be paid on the bonds is \$1,776,354. During the current year, net revenue of the fund was \$173,995 compared to the current year debt service requirement of \$133,992.

The Road Commission has pledged all future Michigan Transportation Fund (MTF) revenue to repay the above Michigan Transportation Fund notes. The total remaining principal and interest to be paid on the bonds total \$6,711,667. During the current year, the Road Fund recognized MTF revenue of \$16,701,630 compared to the current year debt service requirement of \$313,500.

Note 8 - Stewardship, Compliance, and Accountability

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

- a. Budgets must be adopted for the special revenue funds. The Road Fund is a special revenue fund.
- b. Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 8 - Stewardship, Compliance, and Accountability (Continued)

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

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the Board of Road Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within a departmental category, exclusive of certain exceptions, which require the approval of the Board of Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Excess of Expenditures Over Appropriations in Budgeted Fund - During the year, the Road Commission incurred expenditures that were in excess of amounts budgeted in the Road Fund, as follows:

	Amended Budget	Actual
Road improvement program and construction	<u>\$14,944,000</u>	<u>\$15,019,513</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 9 - Other Postemployment Benefits

Plan Description - The Road Commission provides healthcare benefits, dental benefits (only for employees who retired in October 2002 and after), and a death benefit to all full-time employees upon retirement, in accordance with labor contracts. This is an agent multiple-employer defined benefit postemployment benefit plan administered by the Municipal Employees' Retirement System (MERS). As of December 31, 2012, the trust maintained by MERS has specific assets attributable to the Road Commission of \$5,200,785.

Funding Policy - The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of Road Commissioners through annual budget resolutions.

Funding Progress - For the year ended December 31, 2012, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2010. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The remaining amortization period at December 31, 2010 was 26 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (ARC)	\$ 1,991,377
Adjustment to the ARC	(28,224)
Interest on prior year's net OPEB obligation	<u>37,631</u>
Annual OPEB cost	2,000,784
Amounts contributed:	
Payments of claims	(1,397,457)
Advance funding	<u>(400,000)</u>
Increase in net OPEB obligation	203,327
OPEB obligation - Beginning of year	<u>470,388</u>
OPEB obligation - End of year	<u><u>\$ 673,715</u></u>

The December 31, 2010 actuarial valuation used to determine the annual required contribution shown above took into account the beginning of year net OPEB obligation; therefore, the current year OPEB cost properly includes an adjustment to the ARC.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 9 - Other Postemployment Benefits (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal years ended December 31 were as follows:

	2010	2011	2012
Annual OPEB costs	\$ 1,868,502	\$ 1,881,955	\$ 2,000,784
Percentage contributed	97.59%	91.35%	89.84%
Net OPEB obligation	\$ 307,522	\$ 470,388	\$ 673,715

The funding progress of the plan as of the two most recent valuation dates is as follows:

	Valuation as of December 31	
	2008	2010
Actuarial value of assets	\$ 1,729,732	\$ 3,779,084
Actuarial accrued liability (AAL)	\$ 25,209,139	\$ 28,469,954
Unfunded AAL (UAAL)	\$ 23,479,407	\$ 24,690,870
Funded ratio	6.86%	13.27%
Annual covered payroll	\$ 7,459,083	\$ 6,057,949
Ratio of UAAL to covered payroll	314.78%	407.58%

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about 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.

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.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 9 - Other Postemployment Benefits (Continued)

In the December 31, 2010 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual increase in salary between 4.8 percent and 12.9 percent. The assumptions also include expected increases in healthcare costs between 4.5 percent and 9.0 percent. All rates included a 4.5 percent inflation assumption.

The actuarial value of assets was equal to the reported market value of the assets held in the trust. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012 was 24 years.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers nearly all employees of the Road Commission. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain benefits for these employees was established by resolution of the Road Commission's board. Employees hired prior to January 1, 2012 are required to contribute 8 percent of their salaries to the plan. Employees hired on or after January 1, 2012 are required to contribute 10 percent of their salaries to the plan.

Annual Pension Cost - For the year ended December 31, 2012, the Road Commission's annual pension cost of \$1,196,793 for the plan was equal to the annual required contribution which was determined as part of actuarial valuations at December 31, 2009 and 2010, using the entry age normal cost method as well as a supplemental valuation dated March 15, 2012 that is based on the December 31, 2010 valuation. Actual contributions were \$1,294,878, resulting in a net pension asset of \$98,085 as of December 31, 2012. There was no net pension asset as of January 1, 2012.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 10 - Defined Benefit Pension Plan (Continued)

Significant actuarial assumptions used in the December 31, 2010 valuation include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent over the working life of each employee, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent for all years except 2011 through 2014, when the inflation component included in (b) is 1 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period.

The assumptions used in the December 31, 2009 valuation were identical to those used in the December 31, 2010 valuation, except for the inflation component included in expected salary increases. In the December 31, 2009 valuation, the inflation component in salary increases is assumed to be 4.5 percent for all years except 2010 through 2014, when the inflation component is assumed to be 2 percent.

The annual pension costs and the actual funding for the last three years are summarized as follows:

	Fiscal Years Ended December 31		
	2010	2011	2012
Annual pension cost (APC)	\$ 1,081,091	\$ 1,254,454	\$ 1,196,793
Percentage of APC contributed	100%	100%	108%
Net pension asset	\$ -	\$ -	\$ 98,085

The funding progress of the plan as of the three most recent valuation dates is as follows:

	Actuarial Valuation as of December 31		
	2009	2010	2011
Actuarial value of assets	\$ 32,212,344	\$ 33,152,973	\$ 33,954,359
Actuarial accrued liability (AAL) (entry age)	\$ 45,511,537	\$ 48,576,366	\$ 53,061,415
Underfunded AAL (UAAL)	\$ 13,299,193	\$ 15,423,393	\$ 19,107,056
Funded ratio	71%	68%	64%
Covered payroll	\$ 7,459,083	\$ 7,190,527	\$ 6,057,949
UAAL as a percentage of covered payroll	178%	214%	315%

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2012

Note 10 - Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions - In the December 31, 2011 actuarial valuation, the most recent valuation, the entry age normal cost method was used. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases from 4.5 percent to 17.5 percent over the working life of each employee, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent for all years except 2012 through 2014, when the inflation component included in (b) is 1 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized on a closed basis as a level percentage of payroll for divisions that are open to new hires and as a level dollar amount for divisions that are closed to new hires. The remaining amortization period at December 31, 2012 was 27 years.

Note 11 - Subsequent Events

In February 2013, the Board of County Road Commissioners approved the purchase of four heavy trucks totaling \$885,276. The trucks are expected to be delivered to the Road Commission in late 2013. In February 2013, the Board of County Road Commissioners also approved the purchase of three graders for \$600,000 on an installment purchase contract. Under the terms of the contract, the Road Commission will make monthly installment payments at 2 percent interest from May 15, 2013 through April 15, 2018.

Required Supplemental Information

Washtenaw County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2012

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Michigan Transportation Fund	\$ 16,250,000	\$ 16,550,000	\$ 16,701,630	\$ 151,630
State trunkline maintenance	2,328,000	2,502,000	2,511,117	9,117
Federal and state sources	5,925,000	4,662,000	5,202,756	540,756
Revenue from local governments	3,101,000	4,951,000	5,061,064	110,064
Interest, fees, and other revenue	975,000	8,686,100	8,844,467	158,367
Total revenue	28,579,000	37,351,100	38,321,034	969,934
Expenditures				
Administration	971,000	1,210,000	1,162,317	47,683
Operations	10,229,000	10,903,000	10,358,565	544,435
Engineering	2,447,000	2,187,000	2,136,817	50,183
Nondepartmental	5,849,000	5,754,000	5,573,156	180,844
Project expenditures - Road improvement program and construction	9,702,000	14,944,000	15,019,513	(75,513)
Debt service:				
Principal retirement	710,000	710,000	710,000	-
Interest and other charges	43,250	44,225	44,225	-
Total expenditures	29,951,250	35,752,225	35,004,593	747,632
Excess of Revenue (Under) Over Expenditures	(1,372,250)	1,598,875	3,316,441	1,717,566
Fund Balance - January 1, 2012	8,881,113	8,881,113	8,881,113	-
Fund Balance - December 31, 2012	<u>\$ 7,508,863</u>	<u>\$ 10,479,988</u>	<u>\$ 12,197,554</u>	<u>\$ 1,717,566</u>

Washtenaw County Road Commission

Note to Required Supplemental Information Year Ended December 31, 2012

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedule for the Road Fund is presented on the same basis of accounting used in preparing the adopted budget. The following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of governmental funds revenue, expenditures, and changes in fund balances):

	<u>Road Fund</u>
	Total
	<u>Revenue</u>
Amount per governmental fund revenue, expenditures, and changes in fund balance (p. 13)	\$ 31,449,319
Issuance of debt	6,738,000
Premium on debt	115,140
Sale of assets	<u>18,575</u>
Amount per budget statement (p. 35)	<u><u>\$ 38,321,034</u></u>

Other Supplemental Information

Washtenaw County Road Commission

Other Supplemental Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2012

	Primary Road	Local Road	County Road Commission	Total
Revenue				
State aid - Michigan Transportation Fund	\$ 12,344,333	\$ 4,357,297	\$ -	\$ 16,701,630
State trunkline maintenance	-	-	2,511,117	2,511,117
Federal and state sources	4,988,765	42,648	171,343	5,202,756
Revenue from local governments	2,236,923	2,824,141	-	5,061,064
Interest, fees, and other revenue	2,029,528	611,309	791,290	3,432,127
Total revenue	21,599,549	7,835,395	3,473,750	32,908,694
Expenditures				
Current:				
Primary construction/heavy maintenance	13,069,091	-	-	13,069,091
Local construction/heavy maintenance	-	6,603,569	-	6,603,569
Primary routine maintenance	5,030,943	-	-	5,030,943
Local routine maintenance	-	5,600,765	-	5,600,765
State maintenance	-	-	2,468,140	2,468,140
Equipment and capital outlay - Net of depreciation credits	73,435	127,725	483,813	684,973
Administrative	1,067,158	719,554	-	1,786,712
Other services	-	-	446,975	446,975
Debt service:				
Principal retirement	-	300,000	410,000	710,000
Interest and other charges	-	14,250	29,975	44,225
Total expenditures	19,240,627	13,365,863	3,838,903	36,445,393
Excess of Revenue Over (Under) Expenditures	2,358,922	(5,530,468)	(365,153)	(3,536,699)
Other Financing (Uses) Sources				
Operating transfers	(61,328)	61,328	-	-
Proceeds from issuance of long-term debt	1,384,000	5,469,140	-	6,853,140
Total financing sources	1,322,672	5,530,468	-	6,853,140
Net Change in Fund Balance	3,681,594	-	(365,153)	3,316,441
Fund Balance - January 1, 2012	6,609,198	-	2,271,915	8,881,113
Fund Balance - December 31, 2012	\$ 10,290,792	\$ -	\$ 1,906,762	\$ 12,197,554

Washtenaw County Road Commission

Note to Other Supplemental Information Year Ended December 31, 2012

Note - Reconciliation of Analysis Changes in Road Fund Balance to Basic Financial Statements

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

	Road Fund	
	Total Revenue	Total Expenditures
Amounts per governmental fund revenue, expenditures, and changes in fund balance (p. 13)	\$ 31,449,319	35,004,593
Sale of assets	18,575	-
Contributions in-kind	<u>1,440,800</u>	<u>1,440,800</u>
Amount per analysis of changes in Road Fund balance (p. 38)	<u>\$ 32,908,694</u>	<u>\$ 36,445,393</u>