

Bay County,
Michigan



Year Ended
December 31,
2011

Financial
Statements

**BAY COUNTY, MICHIGAN
FINANCIAL REPORT
Year Ended December 31, 2011
Prepared by Bay County Finance Department
(With Independent Auditor's Report Thereon)**



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BAY COUNTY, MICHIGAN

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FINANCIAL SECTION

The Financial Section contains:

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to Basic Financial Statements
- Required Supplementary Information
- Supplementary Financial Information



5800 Gratiot Rd., Ste 201
P.O. Box 2025
Saginaw, MI 48638
Ph: 989.799.9580
Fx: 989.799.0227
www.rehmann.com

INDEPENDENT AUDITORS' REPORT

June 28, 2012

Board of Commissioners
Bay County
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Bay County, Michigan*, (the "County") as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bay County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bay County Housing Fund and the Medical Care Facility, which are major fund opinion units; the financial statements of the Bay County Road Commission Component Unit, which represents approximately 62% of the assets and 61% of the revenues of the aggregate discretely presented component units; and the financial statements of the Bay County Department of Water and Sewer, which represents approximately 24% of the assets and 29% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Fund, Medical Care Facility, Road Commission and Department of Water and Sewer, is based on the reports of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bay County, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons of the General Fund and major special revenue funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also separately issued our report dated June 28, 2012, on our consideration of Bay County's internal control over financial reporting and 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 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and the schedules of funding progress on pages 95 and 96 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 statement 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 assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

As management of Bay County, Michigan, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$72,934,487 (*net assets*). Of this amount, \$26,144,352 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,512,516 during 2011.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$19,475,739, an increase of \$85,922 in comparison with the prior year.
- At the end of the current fiscal year, the general fund did not have an unassigned fund balance. The assigned fund balance for the general fund was \$5,406,615 or 19.38% of total general fund expenditures. Total fund balance for the general fund was \$11,306,840.
- The County's total debt decreased \$3,669,799 or 11.58% during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include public safety, community and economic development, health and welfare, public works, general government, judicial, legislative, and recreation and culture. The business-type activities of the County include the Medical Care Facility, 100% Tax Payment Fund, Housing, Golf Course, Delinquent Property Tax Foreclosure, and Commissary Operations.

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

The government-wide financial statements include not only the County itself (known as the *primary government*), but also a legally separate Road Commission, a legally separate Economic Development Corporation, a legally separate Department of Water and Sewer, a legally separate Drain Commission, a legally separate Library System, a legally separate Land Bank and a legally separate Bay Area Narcotics Enforcement Team for which the County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. Financial statements for the Road Commission, Bay Area Narcotics Enforcement, and Department of Water and Sewer were issued separately from the County and other component units. The Bay County Building Authority, although legally separate, functions for all practical purposes as a department of the County and; therefore, has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 18-20 of this report.

Fund financial statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 24 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Mosquito Control Fund, 911 Service Fund, Division on Aging Fund, and Homeland Security Fund, each of which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 22-32 of this report.

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

Proprietary funds - The County maintains two different types of proprietary funds: enterprise funds and internal service funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its Medical Care Facility, 100% Tax Payment Fund, Housing, Golf Course, Delinquent Property Tax Foreclosure Fund, and Commissary operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. Bay County uses internal service funds to account for its Workers' Compensation/Unemployment Compensation/Sick and Accident Self Insurance Fund and its Health Care Self Insurance Fund. Because these services predominately benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Medical Care Facility Fund, the 100% Tax Payment Fund and the Housing Fund, each of which are considered to be major funds. Data from the other proprietary funds are combined and presented in two separate columns distinguishing between *business-type activities* and *governmental activities*. Individual fund data for each of these non-major enterprise funds and internal service funds are provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 33-37 of this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 38-39 of this report.

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 46-93 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information*. This includes the combining and individual fund financial statements and schedules. Combining and individual fund statements and schedules can be found on pages 100-140 of this report.

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Bay County, as the following table demonstrates, assets exceeded liabilities by \$72,934,487 at the close of the most recent fiscal year.

	Bay County's Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$36,507,762	\$35,071,250	\$24,488,063	\$21,113,420	\$60,995,825	\$56,184,670
Capital assets, net of accumulated depreciation	50,373,025	50,273,377	7,798,087	8,558,545	58,171,112	58,831,922
Total assets	86,880,787	85,344,627	32,286,150	29,671,965	119,166,937	115,016,592
Liabilities:						
Long-term liabilities	23,963,829	23,835,299	8,238,052	6,419,745	32,201,881	30,255,044
Other liabilities	10,515,580	11,143,315	3,514,989	3,196,262	14,030,569	14,339,577
Total liabilities	34,479,409	34,978,614	11,753,041	9,616,007	46,232,450	44,594,621
Net assets:						
Invested in capital assets, net of related debt	34,828,097	32,980,416	7,798,087	8,558,545	42,626,184	41,538,961
Restricted	2,755,049	2,387,726	1,408,902	-	4,163,951	2,387,726
Unrestricted	14,818,232	14,997,871	11,326,120	11,497,413	26,144,352	26,495,284
Total net assets	\$52,401,378	\$50,366,013	\$20,533,109	\$20,055,958	\$72,934,487	\$70,421,971

One of the largest portions of the County's net assets, \$42,626,184 (58.44%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$4,163,951 (5.71%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$26,144,352 (35.85%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

	Bay County's Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue						
Program revenue:						
Charges for services	\$10,415,563	\$10,062,003	\$22,898,314	\$22,530,117	\$33,313,877	\$32,592,120
Operating grants and contributions	13,828,220	9,341,697	310,793	228,080	14,139,013	9,569,777
Capital grants and contributions	1,799,663	58,124	54,150	247,381	1,853,813	305,505
General revenue:						
Property taxes	21,444,988	22,412,007	1,500,994	1,527,208	22,945,982	23,939,215
Unrestricted investment earnings	523,735	656,224	244,734	166,310	768,469	822,534
Other	467,658	329,296	84,926	70,112	552,584	399,408
Total revenue	48,479,827	42,859,351	25,093,911	24,769,208	73,573,738	67,628,559
Expenses						
Public safety	12,716,096	11,729,009	-	-	12,716,096	11,729,009
Community and economic development	189,260	160,891	-	-	189,260	160,891
Health and welfare	9,144,114	10,939,743	-	-	9,144,114	10,939,743
Public works	6,510	7,258	-	-	6,510	7,258
General government	16,085,564	12,298,431	-	-	16,085,564	12,298,431
Judicial	6,510,162	6,998,766	-	-	6,510,162	6,998,766
Legislative	437,091	522,962	-	-	437,091	522,962
Recreation and culture	1,432,962	1,792,309	-	-	1,432,962	1,792,309
Interest on long-term debt	734,097	813,170	-	-	734,097	813,170
Medical care facility	-	-	21,929,668	21,621,370	21,929,668	21,621,370
100% tax payment	-	-	123,273	128,588	123,273	128,588
Golf course	-	-	693,591	671,353	693,591	671,353
Delinquent property tax foreclosure	-	-	191,470	165,932	191,470	165,932
Commissary	-	-	106,029	113,956	106,029	113,956
Housing	-	-	761,335	671,201	761,335	671,201
Total expenses	47,255,856	45,262,539	23,805,366	23,372,400	71,061,222	68,634,939
Change in net assets before transfers	1,223,971	(2,403,188)	1,288,545	1,396,808	2,512,516	(1,006,380)
Transfers	811,394	864,046	(811,394)	(864,046)	-	-
Change in net assets	2,035,365	(1,539,142)	477,151	532,762	2,512,516	(1,006,380)
Net assets, beginning of year	50,366,013	51,905,155	20,055,958	19,523,196	70,421,971	71,428,351
Net assets, end of year	\$52,401,378	\$50,366,013	\$20,533,109	\$20,055,958	\$72,934,487	\$70,421,971

BAY COUNTY, MICHIGAN

■ Management's Discussion and Analysis

The County's net assets increased \$2,512,516 during the current fiscal year. This increase is attributable mainly to operating grants and contributions increasing \$4,569,236 over 2010.

Governmental activities - Governmental activities increased the County's net assets during the current year by \$2,035,365 thereby accounting for the majority of the increase in the net assets of the County. Key elements of this increase are as follows:

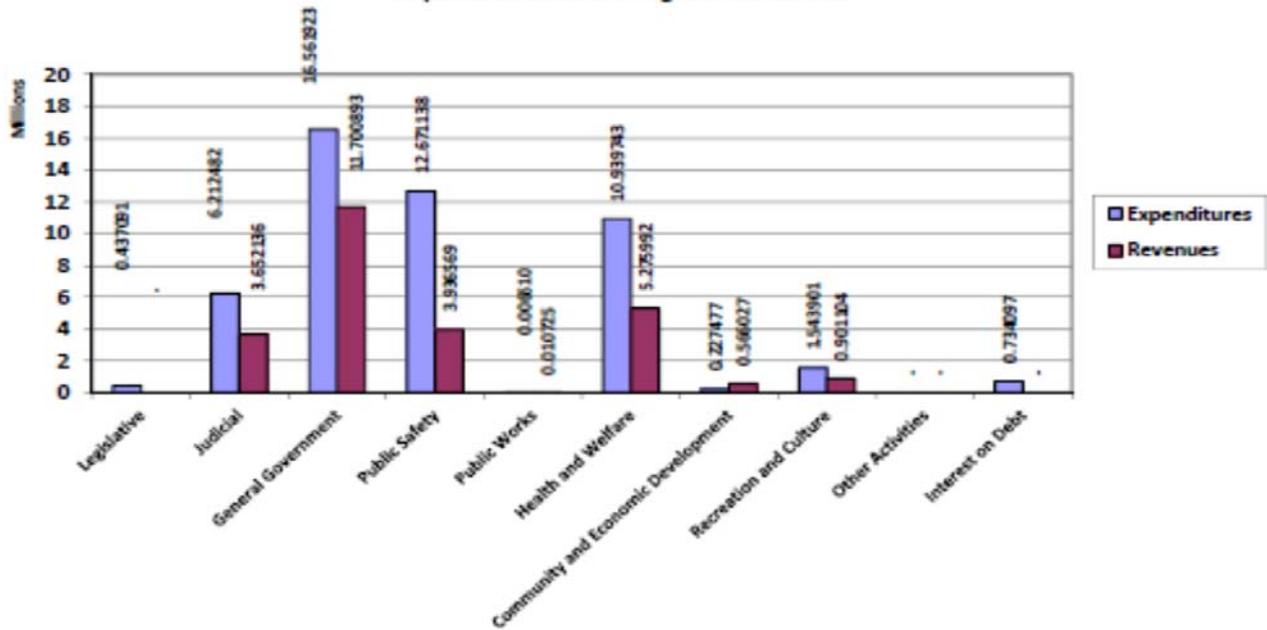
- Total operating grants and contributions increased \$4,486,523 in 2011 over 2010. The increase is due primarily to Homeland Security grants revenues, \$4.5 MM, which included monies pass-through to other agencies.
- Total capital grants and contributions increased \$1,741,539 in 2011 over 2010. The communications tower, as discussed below in capital assets, accounted for nearly \$1.5MM of this increase.
- General Government expenses increased \$3,787,133 in 2011 over 2010. As discussed above, the Homeland Security grant expenses, including pass-through monies, accounted for this variance from prior year.

Business-type activities - Business-type activities increased the County's net assets by \$477,151. The key element of this increase was the charges for services revenue increased \$368,197 for various business type activities in 2011 over 2010.

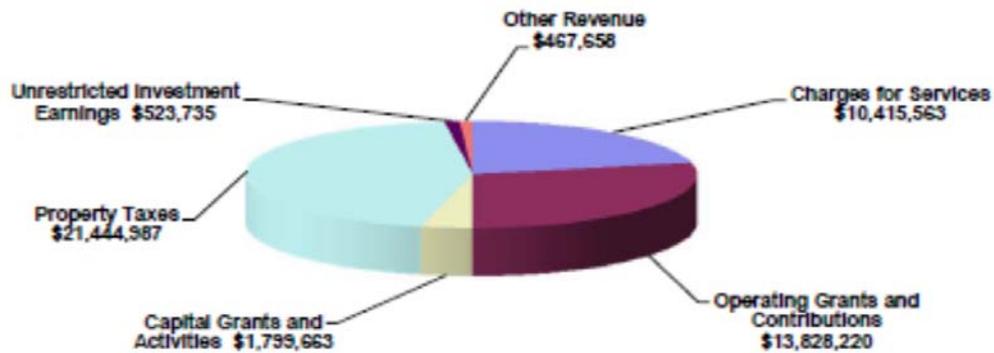
BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

**Governmental Activities - 2011
Expenditures and Program Revenues**



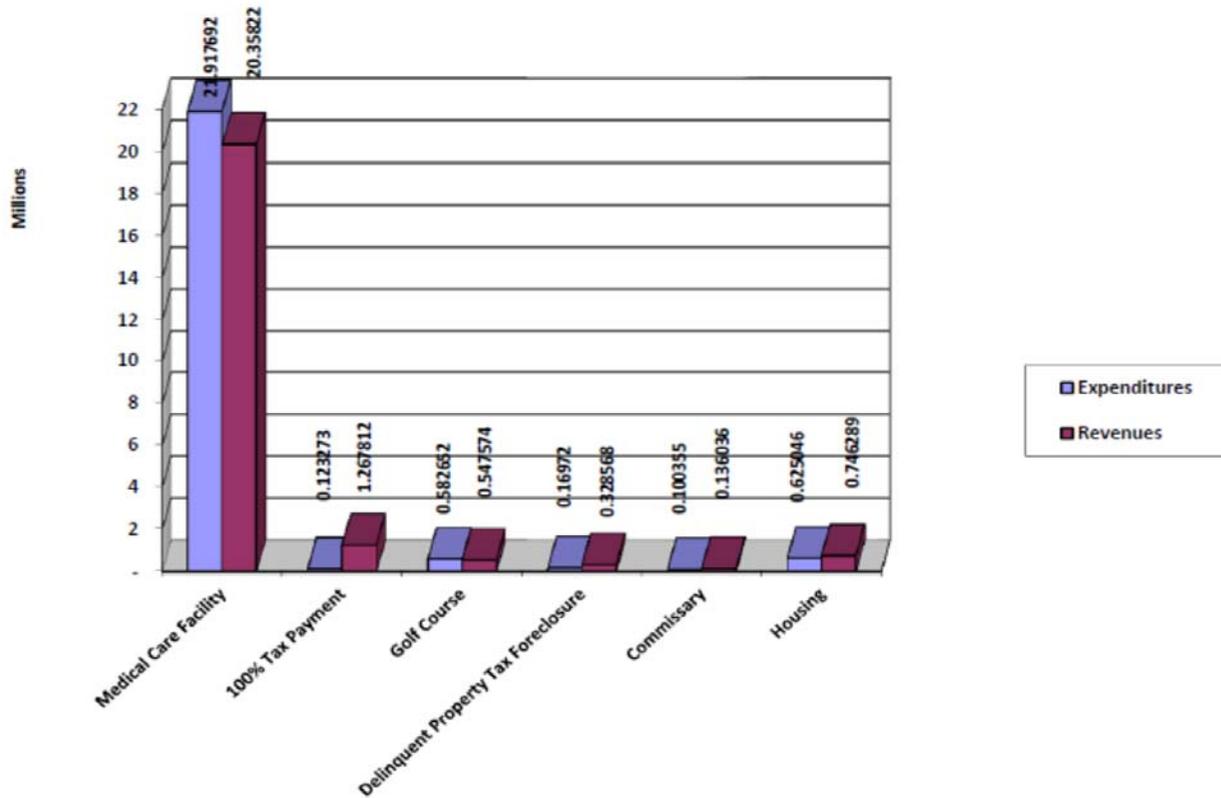
**Revenues by Source
Governmental-Type Activities**



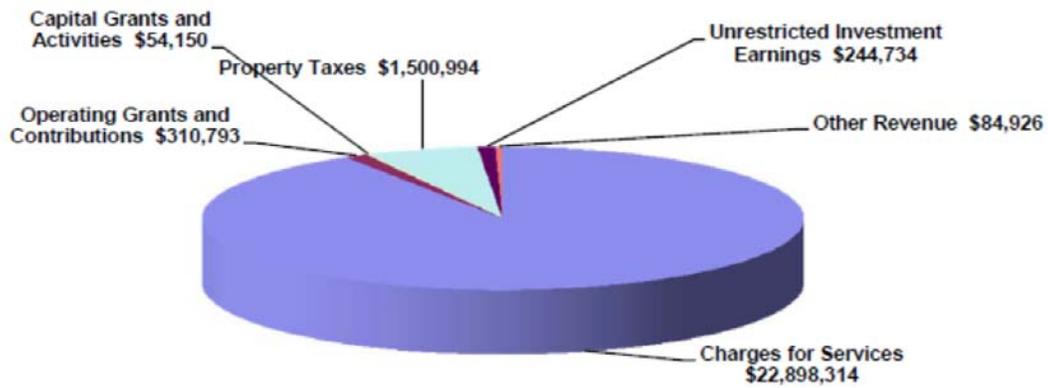
BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

Business-Type Activities – 2011
Expenditures and Program Revenues



Revenues by Source
Business-Type Activities



BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds - The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unassigned fund balance* may serve as a useful measurement of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$19,475,739, an increase of \$85,922 compared to the prior year. Of this amount, 65.95% (\$12,845,121) constitutes committed and assigned *fund balance*, which is available for spending at the government's discretion. However, this fund balance amount is further separated into committed fund balance (\$7,126,522) and assigned fund balance (5,718,599). The underlying distinction between the two is that committed fund balance has been designated by the highest level of decision making authority and formal action is needed to establish, modify, or rescind a commitment. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed to: 1) Non-spendable (\$477,052), 2) Restricted (\$6,153,566). Of the \$85,922 increase in governmental fund balances, there were significant increases in the General Fund of \$990,265 and the Home Rehabilitation fund of \$293,151, and significant decreases in the 911 Service Fund of \$203,284, the Health Department/District Health fund of \$372,181, the Gypsy Moth Control fund of \$294,798, and the Child Care fund of \$119,218.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the assigned fund balance of the General Fund was \$5,406,615 while total fund balance amounted to \$11,306,840. As a measure of the General Fund's liquidity, it may be useful to compare both assigned fund balance and total fund balance to fund expenditures. Assigned fund balance represents 19.38% of total General Fund expenditures, while total fund balance represents 40.53% of that same amount.

Fund balance of the County's General Fund increased by \$990,265 during the current fiscal year. This was primarily due to a decrease in transfers out to the Health Department Fund.

BAY COUNTY, MICHIGAN

■ Management's Discussion and Analysis

The 911 Service Fund decrease of \$203,284 resulted primarily from expenditures related to major capital projects such as CAD viewing software and new siren systems.

The Mosquito Control Fund decreased \$83,367. This decrease resulted primarily from expenditures related to increased mosquito control treatment.

Fund balance of the Division on Aging Fund decreased \$93,181. This decrease is a result of funding senior programs and unbudgeted personnel payouts.

The Homeland Security Fund accounts for revenues from federal grants administered by the United States of Homeland Security for building and sustaining national preparedness activities. This fund was established in 2011.

Proprietary funds - The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the 100% Tax Payment Fund at the end of the year amounted to \$7,463,771, while those for the Medical Care Facility Fund and Housing Fund amounted to \$2,703,852 and \$676,836 respectively. The combined unrestricted net assets of the nonmajor enterprise funds and the internal service funds were \$481,661 and \$0 respectively, at the end of the year. The 100% Tax Payment Fund had an increase in net assets for the year of \$649,543, while the Medical Care Facility had an increase in net assets of \$82,970 and Housing Fund had a decrease in net assets of \$90,099. The combined decrease in net assets of the nonmajor enterprise funds was \$165,263 and the combined increase in net assets for the internal service funds was \$1,375,006 for the year. Other factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights. The differences between the original budget and final amended budget for expenditures resulted in a 5.52% increase (\$1,592,087 increase in expenditures); whereas the difference between the original budget and final amended budget for revenues resulted in a 2.49% increase (\$743,384 increase in revenues); finally, the original budget for total other financing sources/uses was amended resulting in a 31.8% decrease (\$638,521 decrease in other financing uses). The original budget shows \$981,744 for the reduction of fund balance which was affected by budgetary adjustments. These adjustments (\$210,182) resulted in a use of fund balance, including the budgeted use of reserved fund balance of \$20,907. Significant budgetary differences are briefly summarized as follows:

- A \$430,613 increase in expenditures for 2010 open purchase orders filled in 2011.
- A \$241,604 increase in expenditures for software and hardware needs under the Information Systems department.
- A \$600,000 decrease in transfers out to the Health Department Fund.

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

Material actual to budget variances are as follows:

- The primary reason for the \$169,524 positive variance in property taxes and other taxes is due to current real property taxes being greater than budgeted.
- A negative \$606,039 variance in federal grant revenues is mainly the result of reimbursable Friend of the Court Cooperative reimbursement expenditures not being incurred.
- State grant revenues were \$217,155 under budget due to state court equity revenues being less than budgeted.
- A negative \$335,556 variance in charges for services is the result of the court costs revenue and civic arena revenues being less than budgeted.
- The primary reason for the \$203,490 positive variance in reimbursement, refunds and other revenues is due to risk management activity receiving an insurance rebate for better than expected loss trends which was not budgeted.
- General government expenditures were \$831,569 under budget primarily as a result of vacant positions not being filled or delayed being filled and Information Systems department budgeted projects not being completed.
- Public safety expenditures were \$642,785 under budget due to capital outlay and contractual services not purchased in 2011 under the Road Patrol activity.
- For 2011 Recreation and Culture expenditures were \$340,142 under budget primarily due to Pinconning Park capital improvements actual expenses being less than budgeted.
- The other function expenditures were \$315,753 under budget primarily due to risk management expenses being less than budgeted.
- The remaining actual to budget positive variances are due to the County exercising fiscal responsibility.

Capital Asset and Debt Administration

Capital assets - The County's investment in capital assets for its governmental and business-type activities as of December 31, 2011 amounted to \$58,171,112 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and building improvements, machinery and equipment, office equipment and furniture, computer software, computer hardware, vehicles, and construction work in progress. The total decrease in the County's investment in capital assets for the current fiscal year was 1.12% (a 0.2% increase for governmental activities and a 8.89% decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Energy saving systems were installed at various Bay County buildings, which included LED lighting, a building chiller and several wind turbine systems at a total cost of \$324,898, primarily funded by Federal ARAA Grants.
- A communications tower, antenna, Motorola radios with bases, siren systems for multiple townships and a Bay County Federal signaller, primarily funded by the Homeland Security/PSIC Federal grant program, was acquired at a total cost of \$1,496,653.
- Bay County purchased Dell Equalogic and integrated Palm capture upgrades and CAD view software at a cost of \$114,285. A portion of the CAD software was funded with PSIC Federal grant funds.

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

	Bay County's Capital Assets (net of depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,926,399	\$ 1,926,399	\$ 257,559	\$ 257,559	\$ 2,183,958	\$ 2,183,958
Land improvements	732,915	794,804	277,158	317,093	1,010,073	1,111,897
Buildings and building additions and improvements	42,913,129	43,666,515	6,650,968	7,323,909	49,564,097	50,990,424
Machinery and equipment	2,648,210	1,134,055	201,070	171,190	2,849,280	1,305,245
Office equipment and furniture	1,293,233	1,224,903	337,228	396,776	1,630,461	1,621,679
Vehicles	494,350	504,146	41,212	55,569	535,562	559,715
Construction work in progress	364,789	1,022,555	32,892	36,449	397,681	1,059,004
Total	\$50,373,025	\$50,273,377	\$ 7,798,087	\$ 8,558,545	\$58,171,112	\$58,831,922

Additional information on the County's capital assets can be found in Note 6 on pages 65-70 of this report.

Long-term debt - At the end of the current fiscal year, the County had total outstanding debt of \$28,015,940. Of this amount, \$23,813,264 is general obligation bonds. The remainder of the County debt is comprised of notes payable, compensated absences, claims, and maintenance agreements payable.

	Bay County's Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Primary Government						
General obligation bonds	\$15,400,000	\$17,110,000	\$ -	\$ -	\$15,400,000	\$17,110,000
Maintenance agreement payable	8,550	17,100	-	-	8,550	17,100
Compensated absences	2,086,226	2,102,763	360,106	399,402	2,446,332	2,502,165
Component Units						
General obligation bonds	8,413,264	10,304,351	-	-	8,413,264	10,304,351
Notes payable	500,937	667,635	-	-	500,937	667,635
Compensated absences	1,246,857	1,084,488	-	-	1,246,857	1,084,488
Total	\$27,655,834	\$31,286,337	\$ 360,106	\$ 399,402	\$28,015,940	\$31,685,739

The County's total gross long-term debt of \$28,015,940 is equivalent to \$260 per capita or 0.96% of the County's taxable value of property of \$2,916,647,488.

The County's total debt decreased \$3,669,799 or 11.58% during the current fiscal year.

BAY COUNTY, MICHIGAN

Management's Discussion and Analysis

The County's current bond ratings are as follows:

	Moody's	Standard and Poor's
Limited tax obligations	A1	AA
Insured limited tax obligations	Aaa	AAA
Unlimited tax obligations	unrated	unrated
Revenue bonds	unrated	unrated
Special assessment bonds	unrated	unrated

Current state statutes (Article 7, Section II, Michigan Constitution of 1963) limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total state equalized valuation. The County's current debt limit and margin (amounts expressed in thousands) is as follows:

Debt limit	\$ 314,921
Debt margin	\$ 288,765
Percent of limit	91.69%

Additional information on the County's long-term debt can be found in Note 9 on pages 73-76 of this report.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the County's budget for the 2012 fiscal year:

- Labor contracts with all bargaining units expired December 31, 2011. Retiree health care, prescription drug plan and pension modifications were a major focus in the negotiation of these contracts. The County has successfully negotiated eleven out of twelve of these collective bargaining agreements. Retiree health care benefits were eliminated for new hires while the multiplier for new hires was reduced as well. Wages continued to be frozen at the 2008 level, although the majority of employees will be paid .75% lump sum wages for each of the two years of the agreement.
- Additional reductions in labor cost were achieved through targeted early retirement options. In some instances, employees were not replaced and in situations if the position performs critical or unique functions, the replacements were hired at a lower rate than the employees that retired.
- Limiting of capital expenditures.
- Pension contributions beyond the actuarial funding requirement were increased.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in Bay County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, Bay County Building, 515 Center Avenue, Suite 701, Bay City, Michigan 48708-5128.

BASIC FINANCIAL STATEMENTS

BAY COUNTY, MICHIGAN

Statement of Net Assets December 31, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	6,327,752	1,824,057	8,151,809	12,580,581
Investments	14,299,719	12,357,706	26,657,425	4,130,802
Receivables	13,868,898	9,247,480	23,116,378	12,754,910
Net pension asset	1,063,215	15,615	1,078,830	-
Internal balances	(398,825)	398,825	-	-
Prepaid items and other assets	1,314,495	597,223	1,911,718	464,371
Inventories	32,508	47,157	79,665	1,136,847
Net OPEB asset	-	-	-	104,741
Capital assets not being depreciated	2,291,188	290,451	2,581,639	51,678,035
Capital assets being depreciated, net	48,081,837	7,507,636	55,589,473	67,877,344
Total assets	86,880,787	32,286,150	119,166,937	150,727,631
Liabilities				
Accounts payable and accrued liabilities	4,680,188	2,042,302	6,722,490	2,268,576
Unearned revenue	5,699,014	1,472,687	7,171,701	5,635,500
Unamortized bond premium	136,378	-	136,378	-
Noncurrent liabilities:				
Due within one year	2,021,789	28,332	2,050,121	1,590,103
Due in more than one year				
Long-term debt	15,472,987	331,774	15,804,761	8,570,955
Net OPEB obligation	6,469,053	7,877,946	14,346,999	6,385,941
Total liabilities	34,479,409	11,753,041	46,232,450	24,451,075
Net assets				
Invested in capital assets, net of related debt	34,828,097	7,798,087	42,626,184	113,969,329
Restricted for:				
Debt service	21,233	-	21,233	210,363
Home Rehabilitation	1,974,372	-	1,974,372	-
Restricted contributions	685,930	-	685,930	-
Restricted assets	73,514	1,408,902	1,482,416	-
Unrestricted	14,818,232	11,326,120	26,144,352	12,096,864
Total net assets	\$ 52,401,378	\$ 20,533,109	\$ 72,934,487	\$ 126,276,556

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

BAY COUNTY, MICHIGAN

Statement of Activities For the Year Ended December 31, 2011

Functions / Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government						
Governmental activities:						
Public safety	\$ 12,671,138	\$ 44,958	\$ 2,145,185	\$ 564,440	\$ 1,226,944	\$ (8,779,527)
Community and economic development	227,477	(38,217)	154,947	411,080	-	376,767
Health and welfare	9,144,114	-	2,613,858	2,623,379	38,755	(3,868,122)
Public works	6,510	-	10,725	-	-	4,215
General government	16,561,923	(476,359)	2,799,120	8,500,809	400,964	(4,384,671)
Judicial	6,212,482	297,680	1,929,315	1,722,821	-	(2,858,026)
Legislative	437,091	-	-	-	-	(437,091)
Recreation and culture	1,543,901	(110,939)	762,413	5,691	133,000	(531,858)
Interest on long-term debt	734,097	-	-	-	-	(734,097)
Total governmental activities	47,538,733	(282,877)	10,415,563	13,828,220	1,799,663	(21,212,410)
Business-type activities:						
Medical Care Facility	21,917,692	11,976	20,358,220	-	-	(1,571,448)
100% Tax Payment	123,273	-	1,267,812	-	-	1,144,539
Golf Course	582,652	110,939	547,574	-	-	(146,017)
Delinquent Property Tax Foreclosure	169,720	21,750	328,569	-	-	137,099
Commissary	100,355	5,674	136,036	-	-	30,007
Housing	746,289	15,046	260,103	310,793	54,150	(136,289)
Total business-type activities	23,639,981	165,385	22,898,314	310,793	54,150	(542,109)
Total primary government	\$ 71,178,714	\$ (117,492)	\$ 33,313,877	\$ 14,139,013	\$ 1,853,813	\$ (21,754,519)
Component units						
Road Commission	\$ 12,033,556	\$ -	\$ 1,620,694	\$ 9,140,159	\$ 2,153,665	\$ 880,962
Library System	6,623,648	5,861	409,654	66,301	61,345	(6,092,209)
Department of Water and Sewer	5,658,150	-	5,916,153	-	-	258,003
Drain Commission	694,109	-	9,300	6,296	308,426	(370,087)
Bay Area Narcotics Enforcement Team	778,290	2,544	234,235	346,248	-	(200,351)
Bay County Landbank	8,012	-	-	-	-	(8,012)
Total component units	\$ 25,795,765	\$ 8,405	\$ 8,190,036	\$ 9,559,004	\$ 2,523,436	\$ (5,531,694)

continued...



BAY COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (21,212,410)	\$ (542,109)	\$ (21,754,519)	\$ (5,531,694)
General revenues:				
Property taxes	21,444,988	1,500,994	22,945,982	5,812,831
Unrestricted investment earnings	523,735	244,734	768,469	383,315
Gain on equipment disposal	-	-	-	33,012
Other revenue	467,658	84,926	552,584	508,399
Transfers - internal activities	811,394	(811,394)	-	-
Total general revenues and transfers	23,247,775	1,019,260	24,267,035	6,737,557
Change in net assets	2,035,365	477,151	2,512,516	1,205,863
Net assets, beginning of year	50,366,013	20,055,958	70,421,971	125,070,693
Net assets, end of year	\$ 52,401,378	\$ 20,533,109	\$ 72,934,487	\$ 126,276,556

concluded

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

BAY COUNTY, MICHIGAN

Balance Sheet Governmental Funds December 31, 2011

	General	Mosquito Control	911 Service	Division on Aging
Assets				
Cash and cash equivalents	\$ -	\$ 145,742	\$ 1,015,009	\$ 227,615
Investments	9,616,827	258,612	2,543,816	128,459
Accounts receivable	1,163,792	-	413	16,431
Property taxes receivable	1,525,501	1,224,036	1,904,614	1,360,083
Accrued interest receivable	131,558	5,671	39,848	5,393
Inventories	32,508	-	-	-
Due from other funds	510	-	-	-
Due from component units	170,034	-	-	-
Due from other governmental units	1,151,105	-	592,828	55,845
Prepaid items and other assets	386,525	-	-	1,128
Interfund advances	50,000	-	-	-
Total assets	\$ 14,228,360	\$ 1,634,061	\$ 6,096,528	\$ 1,794,954
Liabilities				
Accounts payable	\$ 587,252	\$ 4,887	\$ 691,221	\$ 34,156
Accrued liabilities	561,583	12,225	46,464	55,645
Accrued vacation and sick pay	85,798	173	3,294	2,790
Due to other funds	416,327	334	1,340	1,220
Due to component units	80,124	-	-	-
Due to other governmental units	50,371	-	4,454	-
Deposits	1,270	-	-	-
Interfund advances	-	-	-	-
Long term advances	-	-	-	-
Deferred revenue	1,138,795	1,273,487	1,995,752	1,427,819
Total liabilities	2,921,520	1,291,106	2,742,525	1,521,630
Fund balances				
Nonspendable	469,033	-	-	1,128
Restricted	203,359	100,834	2,804,381	30,275
Committed	5,227,833	242,121	549,622	241,921
Assigned	5,406,615	-	-	-
Total fund balances	11,306,840	342,955	3,354,003	273,324
Total liabilities and fund balances	\$ 14,228,360	\$ 1,634,061	\$ 6,096,528	\$ 1,794,954

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

Homeland Security	Other Governmental Funds	Total Governmental Funds
\$ 203,930	\$ 1,164,786	\$ 2,757,082
-	723,095	13,270,809
-	1,921,117	3,101,753
-	530,690	6,544,924
-	12,190	194,660
-	-	32,508
-	-	510
-	-	170,034
1,016,754	766,561	3,583,093
-	6,891	394,544
-	-	50,000
<u>\$ 1,220,684</u>	<u>\$ 5,125,330</u>	<u>\$ 30,099,917</u>

\$ 1,066,596	126,067	2,510,179
3,131	123,304	802,352
-	10,231	102,286
84	3,455	422,760
-	-	80,124
67,072	27,383	149,280
-	-	1,270
50,000	-	50,000
-	29,000	29,000
25,000	616,074	6,476,927
<u>1,211,883</u>	<u>935,514</u>	<u>10,624,178</u>

-	6,891	477,052
8,801	3,005,916	6,153,566
-	865,025	7,126,522
-	311,984	5,718,599
<u>8,801</u>	<u>4,189,816</u>	<u>19,475,739</u>
<u>\$ 1,220,684</u>	<u>\$ 5,125,330</u>	<u>\$ 30,099,917</u>



BAY COUNTY, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
To Net Assets of Governmental Activities
December 31, 2011

Fund balances - total governmental funds	\$ 19,475,739
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets, net of accumulated depreciation	50,373,025
Other long-term assets are not available to pay for current period expenditures and, therefore, are either deferred or otherwise not recorded in the funds	
Deferred revenue for delinquent taxes receivable	777,913
Net pension asset	1,062,454
Bond premiums in the governmental activities are reported in the funds, but amortized over the life of the bonds on the statement of net assets	
Unamortized bond premium	(136,378)
Internal service funds are used by management to charge the costs of self insurance to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
Net assets of governmental activities accounted for in the internal service funds	4,931,496
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Long-term debt	(15,408,550)
Accrued interest on long-term debt	(119,838)
Accrued liability to Historical Preservation	(765)
Net OPEB liability	(6,469,053)
Compensated absences	(2,084,665)
Net assets of governmental activities	<u>\$ 52,401,378</u>

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

BAY COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2011

	General	Mosquito Control	911 Service	Division on Aging
Revenues				
Property taxes and other taxes	\$ 16,407,209	\$ 1,302,832	\$ 2,026,780	\$ 1,447,665
Licenses and permits	197,390	-	-	-
Federal grants	1,883,654	-	1,040,985	570,513
State grants	3,984,065	-	285,488	-
Interest, rents and royalties	1,195,549	13,658	97,608	12,197
Charges for services	2,638,210	313	-	15,479
Fines and forfeits	521,779	-	-	-
Reimbursements, refunds, and other revenues	2,929,364	-	309,177	358,203
Total revenues	29,757,220	1,316,803	3,760,038	2,404,057
Expenditures				
Current:				
Legislative	450,590	-	-	-
Judicial	6,099,131	-	-	-
General government	9,140,100	-	-	-
Public safety	8,092,863	-	3,737,883	-
Public works	6,510	-	-	-
Health and welfare	927,950	1,301,575	-	2,181,471
Community and economic development	131,089	-	-	-
Recreation and culture	1,477,199	-	-	-
Other functions	1,572,742	-	-	-
Debt service:				
Principal	-	-	8,550	-
Interest and other fees	-	-	-	-
Total expenditures	27,898,174	1,301,575	3,746,433	2,181,471
Revenues over (under) expenditures	1,859,046	15,228	13,605	222,586
Other financing sources (uses)				
Insurance recoveries/proceeds	3,857	-	-	-
Transfers in	1,952,673	-	-	6,200
Transfer out	(2,825,311)	(98,595)	(216,889)	(321,967)
Total other financing sources (uses)	(868,781)	(98,595)	(216,889)	(315,767)
Net change in fund balance	990,265	(83,367)	(203,284)	(93,181)
Fund balances, beginning of year	10,316,575	426,322	3,557,287	366,505
Fund balances, end of year	\$ 11,306,840	\$ 342,955	\$ 3,354,003	\$ 273,324

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

Homeland Security	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 274,916	\$ 21,459,402
-	184,418	381,808
4,574,844	1,821,721	9,891,717
-	541,890	4,811,443
-	37,903	1,356,915
-	141,455	2,795,457
-	13,866	535,645
<u>94,203</u>	<u>3,814,845</u>	<u>7,505,792</u>
<u>4,669,047</u>	<u>6,831,014</u>	<u>48,738,179</u>
-	-	450,590
-	121,735	6,220,866
4,660,246	478,622	14,278,968
-	177,089	12,007,835
-	-	6,510
-	6,034,860	10,445,856
-	105,729	236,818
-	275,447	1,752,646
-	-	1,572,742
-	1,710,000	1,718,550
-	776,127	776,127
<u>4,660,246</u>	<u>9,679,609</u>	<u>49,467,508</u>
<u>8,801</u>	<u>(2,848,595)</u>	<u>(729,329)</u>
-	-	3,857
-	2,819,111	4,777,984
-	(503,828)	(3,966,590)
<u>-</u>	<u>2,315,283</u>	<u>815,251</u>
8,801	(533,312)	85,922
<u>-</u>	<u>4,723,128</u>	<u>19,389,817</u>
<u>\$ 8,801</u>	<u>\$ 4,189,816</u>	<u>\$ 19,475,739</u>

BAY COUNTY, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
 To Change in Net Assets of Governmental Activities
 For the Year Ended December 31, 2011

Net change in fund balances - total governmental funds \$ 85,922

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	2,130,803
Net book value of disposed capital assets	(49,726)
Depreciation expense	(1,981,429)

Certain revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenue in the funds, rather they are deferred to the following fiscal year.

Decrease in delinquent property taxes	(14,414)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on long-term liabilities	1,718,550
Amortization of bond premium	29,482

Internal service funds are used by management to charge the costs of self insurance to individual governmental funds. The net revenue (expense) of the funds is reported with governmental activities.

Interest revenue from governmental internal service funds	35,942
Net operating income from governmental activities in internal service funds	1,339,064

Certain 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 funds.

Increase in the accrual for the net pension asset	575,719
Decrease in accrued interest payable on bonds	12,551
Decrease in the accrual to Historical Preservation	(130)
Increase in the accrual for the net OPEB liability	(1,863,617)
Decrease in the accrual for compensated absences	16,648

Change in net assets of governmental activities	<u>\$ 2,035,365</u>
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The accompanying notes are an integral part of these financial statements.

BAY COUNTY, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances Budget to Actual - General Fund For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes and other taxes	\$ 15,923,970	\$ 16,237,685	\$ 16,407,209	\$ 169,524
Licenses and permits	197,600	197,600	197,390	(210)
Federal grants	2,085,998	2,489,693	1,883,654	(606,039)
State grants	4,283,689	4,201,220	3,984,065	(217,155)
Interest, rents and royalties	1,230,004	1,230,004	1,195,549	(34,455)
Charges for services	2,954,968	2,973,766	2,638,210	(335,556)
Fines and forfeits	551,000	551,000	521,779	(29,221)
Reimbursements, refunds, and other revenues	2,636,229	2,725,874	2,929,364	203,490
Total revenues	29,863,458	30,606,842	29,757,220	(849,622)
Expenditures				
Current:				
Legislative	671,778	684,088	450,590	(233,498)
Judicial	6,134,929	6,215,061	6,099,131	(115,930)
General government	9,230,066	9,971,669	9,140,100	(831,569)
Public safety	8,586,118	8,735,648	8,092,863	(642,785)
Public works	9,653	9,653	6,510	(3,143)
Health and welfare	926,874	926,874	927,950	1,076
Community and economic development	145,199	180,508	131,089	(49,419)
Recreation and culture	1,378,030	1,817,341	1,477,199	(340,142)
Other functions	1,754,603	1,888,495	1,572,742	(315,753)
Total expenditures	28,837,250	30,429,337	27,898,174	(2,531,163)
Revenues over (under) expenditures	1,026,208	177,505	1,859,046	1,681,541
Other financing sources (uses)				
Insurance recoveries/proceeds	7,450	7,450	3,857	(3,593)
Transfers in	1,936,826	1,926,418	1,952,673	26,255
Transfers out	(3,952,228)	(3,303,299)	(2,825,311)	477,988
Total other financing sources (uses)	(2,007,952)	(1,369,431)	(868,781)	500,650
Net change in fund balances	(981,744)	(1,191,926)	990,265	2,182,191
Fund balances, beginning of year	10,316,575	10,316,575	10,316,575	-
Fund balances, end of year	\$ 9,334,831	\$ 9,124,649	\$ 11,306,840	\$ 2,182,191

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

BAY COUNTY, MICHIGAN

■ Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Mosquito Control For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property and other taxes	\$ 1,295,961	\$ 1,295,961	\$ 1,302,832	\$ 6,871
Interest, rents and royalties	12,000	12,000	13,658	1,658
Charges for services	-	-	313	313
Total revenues	<u>1,307,961</u>	<u>1,307,961</u>	<u>1,316,803</u>	<u>8,842</u>
Expenditures				
Health and welfare	<u>1,362,697</u>	<u>1,362,697</u>	<u>1,301,575</u>	<u>(61,122)</u>
Revenues over (under) expenditures	<u>(54,736)</u>	<u>(54,736)</u>	<u>15,228</u>	<u>69,964</u>
Other financing uses				
Transfers out	<u>(98,595)</u>	<u>(98,595)</u>	<u>(98,595)</u>	<u>-</u>
Net change in fund balances	<u>(153,331)</u>	<u>(153,331)</u>	<u>(83,367)</u>	<u>69,964</u>
Fund balances, beginning of year	<u>426,322</u>	<u>426,322</u>	<u>426,322</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 272,991</u></u>	<u><u>\$ 272,991</u></u>	<u><u>\$ 342,955</u></u>	<u><u>\$ 69,964</u></u>

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

BAY COUNTY, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances Budget to Actual - 911 Services Fund For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property and other taxes	\$ 2,024,339	\$ 2,024,339	\$ 2,026,780	\$ 2,441
Federal grants	250,000	250,000	1,040,985	790,985
State grants	279,000	279,000	285,488	6,488
Interest, rents and royalties	80,000	80,000	97,608	17,608
Reimbursements, refunds, and other revenues	4,725	7,625	309,177	301,552
Total revenues	2,638,064	2,640,964	3,760,038	1,119,074
Expenditures				
Public safety	3,023,450	4,133,588	3,737,883	(395,705)
Principal	-	-	8,550	8,550
Total expenditures	3,023,450	4,133,588	3,746,433	(387,155)
Revenues over (under) expenditures	(385,386)	(1,492,624)	13,605	1,506,229
Other financing uses				
Transfers out	(216,889)	(216,889)	(216,889)	-
Net change in fund balances	(602,275)	(1,709,513)	(203,284)	1,506,229
Fund balances, beginning of year	3,557,287	3,557,287	3,557,287	-
Fund balances, end of year	\$ 2,955,012	\$ 1,847,774	\$ 3,354,003	\$ 1,506,229

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

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Division on Aging For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property and other taxes	\$ 1,486,418	\$ 1,439,959	\$ 1,447,665	\$ 7,706
Federal grants	591,386	583,125	570,513	(12,612)
State grants	100	100	-	(100)
Interest, rents and royalties	11,000	11,000	12,197	1,197
Charges for services	24,529	25,075	15,479	(9,596)
Reimbursements, refunds, and other revenues	289,980	312,213	358,203	45,990
Total revenues	2,403,413	2,371,472	2,404,057	32,585
Expenditures				
Health and welfare	2,333,350	2,474,779	2,181,471	(293,308)
Total expenditures	2,333,350	2,474,779	2,181,471	(293,308)
Revenues over (under) expenditures	70,063	(103,307)	222,586	325,893
Other financing sources (uses)				
Transfers in	30,752	6,200	6,200	-
Transfers out	(321,967)	(321,967)	(321,967)	-
Other financing sources (uses)	(291,215)	(315,767)	(315,767)	-
Net change in fund balances	(221,152)	(419,074)	(93,181)	325,893
Fund balances, beginning of year	366,505	366,505	366,505	-
Fund balances, end of year	\$ 145,353	\$ (52,569)	\$ 273,324	\$ 325,893

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

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Homeland Security For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal grants	\$ -	\$ 7,558,815	\$ 4,574,844	\$ (2,983,971)
Reimbursements, refunds, and other revenues	-	95,843	94,203	(1,640)
Total revenues	-	7,654,658	4,669,047	(2,985,611)
Expenditures				
General government	-	7,654,658	4,660,246	(2,994,412)
Net change in fund balances	-	-	8,801	8,801
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ 8,801	\$ 8,801

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

BAY COUNTY, MICHIGAN

Statement of Net Assets

Proprietary Funds
December 31, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities
	Medical Care Facility	100% Tax Payment	Housing	Other Proprietary Funds	Total	Internal Service Funds
Assets						
Current assets:						
Cash and cash equivalents	\$ 391,909	\$ 802,110	\$ 502,932	\$ 127,106	\$ 1,824,057	\$ 3,570,670
Investments	9,081,855	2,690,928	234,485	350,438	12,357,706	1,028,910
Accounts receivable, net of allowance	2,647,710	5,323	84,764	3,576	2,741,373	258,985
Property taxes receivable	1,458,323	4,214,243	-	-	5,672,566	-
Accrued interest receivable	-	737,893	-	4,499	742,392	14,385
Inventories	-	-	-	47,157	47,157	-
Due from other funds	-	425,224	-	12,402	437,626	23,437
Due from component units	-	-	-	25,000	25,000	750
Due from other governmental units	-	66,129	-	20	66,149	314
Prepaid items and other assets	560,081	-	26,309	10,833	597,223	919,951
Total current assets	14,139,878	8,941,850	848,490	581,031	24,511,249	5,817,402
Noncurrent assets:						
Net pension asset	-	5,623	-	9,992	15,615	761
Land	-	-	90,538	167,021	257,559	-
Land improvements	-	-	337,165	771,553	1,108,718	-
Constuction in progress	32,892	-	-	-	32,892	-
Buildings and improvements	12,111,038	-	4,548,608	406,224	17,065,870	-
Machinery and equipment	274,899	-	356,473	467,054	1,098,426	-
Office furniture and fixtures	2,069,650	2,035	-	161,442	2,233,127	-
Vehicles and other	108,826	-	-	15,050	123,876	-
Less accumulated depreciation	(9,401,781)	(2,035)	(3,326,602)	(1,391,963)	(14,122,381)	-
Total noncurrent assets	5,195,524	5,623	2,006,182	606,373	7,813,702	761
Total assets	19,335,402	8,947,473	2,854,672	1,187,404	32,324,951	5,818,163
Liabilities						
Current liabilities:						
Accounts payable	356,047	540	72,225	11,726	440,538	1,464
Accrued liabilities	714,124	3,320	30,056	6,051	753,551	128,933
Accrued vacation and sick pay, current portion	-	954	24,463	2,915	28,332	-
Deposits payable	17,482	-	22,373	-	39,855	-
Due to other funds	-	13,027	-	25,774	38,801	12
Due to other governmental units	-	27,212	-	154	27,366	-
Claims, settlements and judgments	780,992	-	-	-	780,992	754,697
Unearned revenue	1,458,323	-	3,022	11,342	1,472,687	-
Total current liabilities	3,326,968	45,053	152,139	57,962	3,582,122	885,106

continued...

BAY COUNTY, MICHIGAN

Statement of Net Assets
 Proprietary Funds
 December 31, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities
	Medical Care Facility	100% Tax Payment	Housing	Other Proprietary Funds	Total	Internal Service Funds
Liabilities (continued)						
Noncurrent liabilities:						
Net OPEB obligation	\$ 7,828,000	\$ 20,306	\$ -	\$ 29,640	\$ 7,877,946	\$ -
Accrued vacation and sick pay	281,058	9,441	19,515	21,760	331,774	1,561
Total noncurrent liabilities	8,109,058	29,747	19,515	51,400	8,209,720	1,561
Total liabilities	11,436,026	74,800	171,654	109,362	11,791,842	886,667
Net assets						
Investment in capital assets	5,195,524	-	2,006,182	596,381	7,798,087	-
Restricted for:						
Restricted assets	-	1,408,902	-	-	1,408,902	-
Insurance claims	-	-	-	-	-	4,606,831
Contributions	-	-	-	-	-	324,665
Capital outlay	-	-	-	-	-	-
Unrestricted	2,703,852	7,463,771	676,836	481,661	11,326,120	-
Total net assets	\$ 7,899,376	\$ 8,872,673	\$ 2,683,018	\$ 1,078,042	\$ 20,533,109	\$ 4,931,496

concluded

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

BAY COUNTY, MICHIGAN

Statement of Revenue, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities
	Medical Care Facility	100% Tax Payment	Housing	Other Proprietary Funds	Total	Internal Service Funds
Operating revenues						
Program grants-subsidies	\$ -	\$ -	\$310,793.00	\$ -	\$310,793.00	\$ -
Charges for services	20,358,220	-	260,103	1,012,179	21,630,502	7,569,759
Reimbursements, refunds, and other revenue	18,069	-	44,436	14,516	77,021	-
Total operating revenues	20,376,289	-	615,332	1,026,695	22,018,316	7,569,759
Operating expenses						
Personal services	16,430,099	118,234	190,293	339,854	17,078,480	5,498,919
Supplies	-	4,839	-	79,205	84,044	34
Other services	4,889,334	200	369,172	497,189	5,755,895	731,742
Depreciation	613,372	-	201,870	74,842	890,084	-
Total operating expenses	21,932,805	123,273	761,335	991,090	23,808,503	6,230,695
Operating (loss) income	(1,556,516)	(123,273)	(146,003)	35,605	(1,790,187)	1,339,064
Nonoperating revenues (expenses)						
Property and other taxes	1,500,994	1,267,812	-	-	2,768,806	-
Other income	7,905	-	-	-	7,905	-
Gain on disposal of capital assets	3,137	-	-	-	3,137	-
Interest income	127,450	103,137	1,754	12,393	244,734	35,942
Total nonoperating revenues (expenses)	1,639,486	1,370,949	1,754	12,393	3,024,582	35,942
Income (loss) before contributions and transfers	82,970	1,247,676	(144,249)	47,998	1,234,395	1,375,006
Capital contributions	-	-	54,150	-	54,150	-
Transfers in	-	174,188	-	-	174,188	-
Transfers out	-	(772,321)	-	(213,261)	(985,582)	-
Change in net assets	82,970	649,543	(90,099)	(165,263)	477,151	1,375,006
Net assets, beginning of year	7,816,406	8,223,130	2,773,117	1,243,305	20,055,958	3,556,490
Net assets, end of year	\$ 7,899,376	\$ 8,872,673	\$ 2,683,018	\$ 1,078,042	\$20,533,109	\$ 4,931,496

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

BAY COUNTY, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities
	Medical Care Facility	100% Tax Payment	Housing	Other Proprietary Funds	Total	Internal Service Funds
Cash flows from operating activities						
Cash received from customers	\$ 17,851,808	\$ -	\$ 398,524	\$ 987,118	\$ 19,237,450	\$ -
Cash received from interfund services provided	2,097,889	960,503	-	-	3,058,392	7,458,204
Cash received from grants and subsidies	-	15,318	307,449	-	322,767	-
Interfund reimbursements	-	(400,993)	-	212	(400,781)	337
Cash payments to suppliers for goods and services	(5,828,004)	-	(305,754)	(578,130)	(6,711,888)	(1,477,021)
Cash payments to employees and related taxes and insurance	(13,958,331)	(114,527)	(357,162)	(332,628)	(14,762,648)	(5,445,518)
Other operating revenues	18,069	-	-	14,516	32,585	-
Net cash provided (used) by operating activities	181,431	460,301	43,057	91,088	775,877	536,002
Cash flows from noncapital financing activities						
Taxes received	1,500,994	802,178	-	-	2,303,172	-
Resident trust withdrawals	7,095	-	-	-	7,095	-
Contributions	7,905	-	-	-	7,905	-
Transfers in	-	174,188	-	-	174,188	-
Transfers out	-	(772,321)	-	(213,261)	(985,582)	-
Net cash provided (used) by noncapital financing activities	1,515,994	204,045	-	(213,261)	1,506,778	-
Cash flows from capital and related financing activities						
Acquisition and construction of capital assets	(32,814)	-	(96,812)	-	(129,626)	-
Proceeds from sale of capital assets	3,137	-	-	-	3,137	-
Cash received from capital grants	-	-	54,150	-	54,150	-
Net cash provided (used) by capital and related financing activities	(29,677)	-	(42,662)	-	(72,339)	-
Cash flows from investing activities						
Purchases of investments	(3,449,074)	(733,060)	-	(1,230)	(4,183,364)	(89,412)
Interest on investments	127,450	103,137	1,754	12,393	244,734	35,942
Net cash provided (used) by investing activities	(3,321,624)	(629,923)	1,754	11,163	(3,938,630)	(53,470)
Net increase (decrease) in cash and cash equivalents	(1,653,876)	34,423	2,149	(111,010)	(1,728,314)	482,532
Cash and cash equivalents, beginning of year	2,045,785	767,687	500,783	238,116	3,552,371	3,088,138
Cash and cash equivalents, end of year	\$ 391,909	\$ 802,110	\$ 502,932	\$ 127,106	\$ 1,824,057	\$ 3,570,670

continued...

BAY COUNTY, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds					Governmental
	Medical Care Facility	100% Tax Payment	Housing	Other Proprietary Funds	Total	Internal Service Funds
Cash flows from operating activities						
Operating income (loss)	\$ (1,556,516)	\$ (123,273)	\$ (146,003)	\$ 35,605	\$ (1,790,187)	\$ 1,339,064
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation	613,372	-	201,870	74,842	890,084	-
Changes in assets and liabilities:						
Accounts receivable	(708,551)	464,921	93,998	1,447	(148,185)	(110,712)
Property taxes receivable	-	465,634	-	-	465,634	-
Accrued interest receivable	-	43,197	-	(792)	42,405	(5,080)
Inventories	-	-	-	(6,646)	(6,646)	-
Due from other funds	-	(399,687)	-	199	(399,488)	344
Due from component units	-	-	-	(25,000)	(25,000)	4,237
Due from other governmental units	-	49,355	-	33	49,388	53
Prepaid items and other assets	(422,957)	-	(121)	1,084	(421,994)	(730,031)
Net pension asset	-	(3,071)	-	(5,708)	(8,779)	(434)
Accounts payable	(194,699)	(8,210)	12,357	3,826	(186,726)	(15,214)
Accrued liabilities	173,818	37	(115,686)	751	58,920	29,691
Accrued vacation and sick pay	(38,042)	(1,507)	-	(93)	(39,642)	111
Deposits payable	-	-	(13)	-	(13)	-
Due to other funds	-	(1,306)	-	13	(1,293)	(7)
Due to other governmental units	-	(34,037)	-	(79)	(34,116)	-
Claims, settlements, and judgments	498,992	-	-	-	498,992	23,980
Unearned revenue	(20,986)	-	(3,345)	(749)	(25,080)	-
Net OPEB obligation	1,837,000	8,248	-	12,355	1,857,603	-
Net cash provided (used by operating activities)	\$ 181,431	\$ 460,301	\$ 43,057	\$ 91,088	\$ 775,877	\$ 536,002

concluded

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

BAY COUNTY, MICHIGAN

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2011

	Inmate Private Purpose Trust Fund	Pension and Other Employee Benefits Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ 13,157	\$ -	\$ 4,279,102
Investments at fair value:			
Equities	-	194,437,926	-
Fixed income	-	50,363,269	-
Money market	-	8,282,795	-
Other	-	277,897	5,599,439
Total investments, at fair value	<u>-</u>	<u>253,361,887</u>	<u>5,599,439</u>
Receivables:			
Interest and dividends	-	759,060	-
Accounts	-	226,588	361
Prepaid items and other assets	-	105,379	-
Net pension asset	-	3,065	-
Due from other funds	-	132	-
Due from component units	-	49,035	-
Total assets	<u>13,157</u>	<u>254,505,146</u>	<u>\$ 9,878,902</u>
Liabilities			
Accounts payable	\$ 7,856	\$ 421,588	\$ 193,152
Accrued liabilities	4,703	633,046	127,759
Accrued vacation and sick pay	-	6,244	-
Due to other funds	-	132	-
Due to component units	-	-	9,108,969
Due to other governmental units	-	-	285,066
Deposits	-	-	163,956
Net OPEB obligation	-	8,941	-
Total liabilities	<u>12,559</u>	<u>1,069,951</u>	<u>\$ 9,878,902</u>
Net assets held in trust	<u>\$ 598</u>	<u>\$ 253,435,195</u>	

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



BAY COUNTY, MICHIGAN

Statement of Changes in Fiduciary Net Assets Fiduciary Funds For the Year Ended December 31, 2011

	Inmate Private Purpose Trust Fund	Pension and Other Employee Benefits Trust Funds
Additions		
Contributions:		
Employer	\$ -	\$ 4,152,157
Current premium contributions	-	1,396,843
Plan members	-	2,045,568
	<hr/>	<hr/>
Total contributions	-	7,594,568
Investment income:		
Net depreciation in fair value of investments	-	(7,450,355)
Interest and dividends	161	5,616,564
Less investment expense	-	(1,922,908)
	<hr/>	<hr/>
Net investment income (loss)	161	(3,756,699)
Other revenue	-	60,851
	<hr/>	<hr/>
Total additions	161	3,898,720
Deductions		
Benefits	-	11,493,030
Retiree healthcare premium payments	-	1,396,843
Administrative expenses	-	283,803
Refunds of contributions	-	232,330
Pension expense	-	3,470
Other services	189	-
	<hr/>	<hr/>
Total deductions	189	13,409,476
Change in net assets	(28)	(9,510,756)
Net assets held in trust for pension and healthcare benefits		
Beginning of year	626	262,945,951
	<hr/>	<hr/>
End of year	<u>\$ 598</u>	<u>\$ 253,435,195</u>

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

BAY COUNTY, MICHIGAN

Statement of Net Assets

Component Units
December 31, 2011

	Road Commission	Economic Development	Library System
Assets			
Cash and cash equivalents	\$ 416,556	\$ 6,057	\$ 5,456,758
Investments	2,362,425	15,275	-
Receivables	114,524	214	5,710,159
Inventories	784,540	-	-
Due from other governmental units	1,322,058	-	-
Due from primary government	4,309	-	32,778
Prepaid items and other assets	175,349	-	119,038
Net OPEB asset	-	-	-
Capital assets not being depreciated	50,768,397	-	107,487
Capital assets being depreciated, net	37,054,583	-	2,542,100
Total assets	93,002,741	21,546	13,968,320
Liabilities			
Accounts payable and accrued liabilities	394,087	-	198,566
Unearned revenue	-	-	5,635,500
Due to other governmental units	50,880	-	-
Due to other component units	283,038	-	-
Due to primary government	-	-	-
Advances from other governmental units	296,199	-	-
Long-term liabilities:			
Due within one year	300,000	-	18,697
Due in more than one year	566,555	-	168,289
Net OPEB obligation	6,289,267	-	96,674
Total liabilities	8,180,026	-	6,117,726
Net assets			
Investment in capital assets, net of related debt	87,822,980	-	2,649,587
Restricted for:			
Debt service	-	-	-
Unrestricted (deficit)	(3,000,265)	21,546	5,201,007
Total net assets	\$ 84,822,715	\$ 21,546	\$ 7,850,594

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

Department of Water and Sewer	Drain Commission	Bay Area Narcotics Enforcement Team	Bay County Landbank	Total
\$ 5,706,052	\$ 845,115	\$ 101,129	\$ 48,914	\$ 12,580,581
-	1,753,102	-	-	4,130,802
3,572,073	889,326	40,512	-	10,326,808
351,221	-	-	1,086	1,136,847
633,859	310,667	-	-	2,266,584
-	124,431	-	-	161,518
164,322	3,662	2,000	-	464,371
104,741	-	-	-	104,741
461,478	340,673	-	-	51,678,035
24,781,293	3,479,735	19,633	-	67,877,344
<u>35,775,039</u>	<u>7,746,711</u>	<u>163,274</u>	<u>50,000</u>	<u>150,727,631</u>
701,281	39,355	113,044	25,000	1,471,333
-	-	-	-	5,635,500
-	-	-	-	50,880
-	-	-	-	283,038
-	167,126	-	-	167,126
-	-	-	-	296,199
1,028,997	242,409	-	-	1,590,103
7,299,319	536,792	-	-	8,570,955
-	-	-	-	6,385,941
<u>9,029,597</u>	<u>985,682</u>	<u>113,044</u>	<u>25,000</u>	<u>24,451,075</u>
20,435,922	3,041,207	19,633	-	113,969,329
-	210,363	-	-	210,363
6,309,520	3,509,459	30,597	25,000	12,096,864
<u>\$ 26,745,442</u>	<u>\$ 6,761,029</u>	<u>\$ 50,230</u>	<u>\$ 25,000</u>	<u>\$ 126,276,556</u>



BAY COUNTY, MICHIGAN

Statement of Activities Component Units For the Year Ended December 31, 2011

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Component units					
Road Commission					
Governmental activities:					
Highways and streets	\$ 12,033,556	\$ 1,620,694	\$ 9,140,159	\$ 2,153,665	\$ 880,962
Library System					
Governmental activities:					
Recreation and culture	6,629,509	409,654	66,301	61,345	(6,092,209)
Department of Water and Sewer					
Business-type activities:					
Water	1,669,655	1,791,983	-	-	122,328
Sewer	3,988,495	4,124,170	-	-	135,675
Total Department of Water and Sewer	5,658,150	5,916,153	-	-	258,003
Drain Commission					
Governmental activities:					
Public works	642,796	9,300	6,296	308,426	(318,774)
Interest on long-term debt	51,313	-	-	-	(51,313)
Total Drain Commission	694,109	9,300	6,296	308,426	(370,087)
Bay Area Narcotics Enforcement Team					
Governmental activities:					
Public safety	780,834	234,235	346,248	-	(200,351)
Bay County Landbank					
Governmental activities:					
General government	8,012	-	-	-	(8,012)
Total component units	\$ 25,804,170	\$ 8,190,036	\$ 9,559,004	\$ 2,523,436	\$ (5,531,694)

continued...

BAY COUNTY, MICHIGAN

Statement of Activities Component Units For the Year Ended December 31, 2011

	Road Commission	Economic Development	Library System
Change in net assets			
Net (expense) revenue	\$ 880,962	\$ -	\$ (6,092,209)
General revenues:			
Property taxes	-	-	5,777,339
Unrestricted investment earnings	30,985	534	156,983
Gain on equipment disposal	-	-	-
Other revenue	242,955	-	-
Total general revenues	273,940	534	5,934,322
Change in net assets	1,154,902	534	(157,887)
Net assets, beginning of year	83,667,813	21,012	8,008,481
Net assets, end of year	\$ 84,822,715	\$ 21,546	\$ 7,850,594

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

Department of Water and Sewer	Drain Commission	Bay Area Narcotics Enforcement Team	Bay County Landbank	Total
\$ 258,003	\$ (370,087)	\$ (200,351)	\$ (8,012)	\$ (5,531,694)
-	35,492	-	-	5,812,831
87,434	107,379	-	-	383,315
-	-	-	33,012	33,012
179,661	85,356	427	-	508,399
267,095	228,227	427	33,012	6,737,557
525,098	(141,860)	(199,924)	25,000	1,205,863
26,220,344	6,902,889	250,154	-	125,070,693
<u>\$ 26,745,442</u>	<u>\$ 6,761,029</u>	<u>\$ 50,230</u>	<u>\$ 25,000</u>	<u>\$ 126,276,556</u>

NOTES TO FINANCIAL STATEMENTS

BAY COUNTY, MICHIGAN

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bay County, Michigan (the “County”) was incorporated in 1857. The County operates under the unified form of government and provides services to its 107,771 residents in many areas, including law enforcement, administration of justice, community enrichment and development, and human services.

The accounting policies of the Bay County conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the County and its component units. The component units discussed below are included in the County’s reporting entity because they are entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Unit

Bay County Building Authority (Building Authority) - The seven-member authority is appointed by the Bay County Board of Commissioners and its activity is dependent upon Board actions. The purpose of the Building Authority is to finance through tax-exempt bonds the construction of public facilities for use by the County, with the bonds secured by lease agreements with, and serviced through lease payments from, the County. The Building Authority is reported as if it were part of the primary government because its sole purpose is to finance the construction of the County’s public buildings. The Building Authority’s activity is recorded in various Debt Service and Capital Projects funds.

Discretely Presented Component Units

Bay County Road Commission (Road Commission) - The Road Commission is governed by a Board comprised of three elected county-at-large officials who are not members of the Bay County Board of Commissioners. The County does not have appropriation authority or budgetary control over the activities of the Road Commission; however, the nature and significance of the relationship between the primary government and the Road Commission is such that exclusion would cause the reporting entity’s financial statements to be misleading. The Road Commission is responsible for the construction and maintenance of the County’s system of roads and bridges and is principally funded by state-collected vehicle fuel and registration taxes under Public Act 51. The Road Commission’s activities are reported discretely as a governmental fund type. Complete financial statements of the Road Commission can be obtained from its administrative offices at 2600 East Beaver Road, Kawkawlin, Michigan, 48631.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Bay County Economic Development Corporation (Economic Development Corporation) - The Economic Development Corporation is governed by a nine-member Board who are recommended by the Bay County Executive Board and approved by the Bay County Board of Commissioners. The County has appropriation authority and budgetary control over the activities of the Economic Development Corporation. The Economic Development Corporation provides the means and methods of encouragement and assistance to strengthen and revitalize the economy of Bay County by improving the atmosphere for progress and growth through new employment opportunities and an increased tax base. The Economic Development Corporation's activities are reported discretely as a governmental fund type. Separate financial statements for the Economic Development Corporation can be obtained from the County's Finance Department at 515 Center Avenue, Bay City, Michigan, 48708.

Bay County Library System (Library System) - The Library System is governed by a Board comprised of five appointees of the Bay County Board of Commissioners who are not County Board members. The County, which is the Library System's taxing authority, also has appropriation authority, but not budgetary control, over its activities. The Library System provides services and materials in a variety of formats to satisfy the educational, personal, and professional interests of the Bay County community, with funds primarily raised through local property taxes. The Library System's activities are reported discretely as a governmental fund type. Separate financial statements for the Library System can be obtained from its administrative offices at 500 Center Avenue, Bay City, Michigan, 48708.

Bay County Department of Water and Sewer (Department of Water and Sewer) - The Department of Water and Sewer is governed by a Board consisting of three elected county-at-large officials who are not members of the Bay County Board of Commissioners. The County does not have appropriation authority or budgetary control over the activities of the Department of Water and Sewer; however, the nature and significance of the relationship between the primary government and the Department of Water and Sewer is such that exclusion would cause the reporting entity's financial statements to be misleading. Periodically, the Department of Water and Sewer requests and receives a pledge of the full faith and credit of Bay County as secondary security on bond issues. The Department of Water and Sewer provides a healthful and continuous water supply service and an environmentally sound, convenient, and continuous wastewater disposal service to Bay County communities. The Department of Water and Sewer debt service and capital project activities are reported discretely. Complete financial statements of the Department of Water and Sewer can be obtained from its administrative offices at 3933 Patterson Road, Bay City, Michigan, 48706.

Bay County Drain Commission (Drain Commission) - Each of the drainage districts established pursuant to the Drain Code of 1956 are separate legal entities, with the power to contract, to sue and be sued, to hold, manage and dispose of real and personal property, etc. The County Drain Commissioner has sole responsibility to administer the drainage district established pursuant to Chapters 3 and 4 of the Drain Code. The drainage Board or Drain Commissioner, on behalf of the drainage district, may issue debt and levy special assessments authorized by the Drain Code without the prior approval of the County Board of Commissioners. The full faith and credit of the County may be given for the debt of the drainage district. The County employs all full-time employees and the elected officials of the Drain Commission. The Drain Commission deposits its receipts with the County Treasurer. The nature and significance of the relationship between the primary government and the Drain Commission is such that exclusion would cause the reporting entity's financial statements to be misleading. Separate financial statements for the Drain Commission can be obtained from the County's Finance Department at 515 Center Avenue, Bay City, Michigan, 48708.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Bay Area Narcotics Enforcement Team (BAYANET) - BAYANET is an instrument of six counties and the State Police formed to organize a multi-jurisdictional/multi-tiered investigative task force designed to singularly combat the proliferation of narcotic trafficking in the eastern Mid-Michigan area. Complete financial statements of BAYANET can be obtained from its administrative offices at P.O. Box 676, Freeland, Michigan 48623.

Bay County Landbank - The landbank is a public body corporate organized pursuant to the Michigan Land Bank Fast Track P.A. 258 and an Intergovernmental Agreement entered into between the Michigan Land Bank Authority and the Treasurer of Bay County, Michigan. The Landbank was created to acquire, hold, manager and develop tax-foreclosed properties, as well as other vacant and abandoned properties.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government, and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns 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, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. 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 and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the principal operating fund of Bay County. It is used to account for all revenues, expenditures, and activities not specifically accounted for in another fund.

The *Mosquito Control Fund* accounts for revenues received from property taxes and State grants for mosquito control.

The *911 Service Fund* accounts for revenues received from property taxes and grants to provide countywide central dispatching services for police, fire, and other emergency situations.

The *Division on Aging Fund* accounts for revenues received from property taxes, federal and state grants, and contributions to provide services and programs for County residents 6 years of age and older.

The *Homeland Security Fund* accounts for revenues received from federal grants administered by the United States Homeland Security for building and sustaining national preparedness activities.

The government reports the following major proprietary funds:

The *Medical Care Facility Fund* was established to account for the operations of the facility, which is a licensed skilled nursing home that provides long-term, highly skilled care to the residents of Bay County. Revenues are primarily received from patients, third-party payors, and property taxes.

The *100% Tax Payment Fund* is used to account for advances by the County to other local operating units and County funds for delinquent property taxes. Advances are repaid from collections of delinquent taxes, including interest and collection fees.

The *Housing Fund* accounts for the operations of the Hampton Township Housing Project, which provides low-income housing to eligible County residents.

Additionally, the County reports the following fund types:

BAY COUNTY, MICHIGAN

Notes To Financial Statements

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental activities.

The *Enterprise Funds* account for those operations that are financed and operated in a manner similar to private business or where the County has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal Service Funds provide insurance coverage for workers' compensation, sickness and accident, unemployment compensation, and health insurance to other departments or agencies of the government on a cost reimbursement basis.

The *Private Purpose Trust Funds* account for trust arrangements for the Probate Court and Inmate Trust funds, which accumulate resources held in trust for those specific purposes.

The *Pension and Other Employee Benefit Trust Funds* account for the activities of the Employees' Retirement System and Public Employee Healthcare Fund, which accumulate resources for pension and health benefit payments for qualified employees.

Agency Funds are used to account for assets held for other governments in an agency capacity, including tax collections.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Medical Care Facility, the 100% Tax Payment, and Housing enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Assets, liabilities and equity

Deposits and investments

For purposes of the statement of cash flows, the County considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value, as determined by the custodian under the direction of the County Commission, with the assistance of a valuation service.

Receivable and payables

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

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds” (i.e., the current portion of interfund loans) or “advances to / from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventory and Prepaids

Inventories are valued at cost using either the first-in, first-out or specific identification method. The costs of inventories are recorded as assets when purchased and charged to expenditures when used, which is the consumption method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the County), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects when constructed. Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

	Years
Building and improvements	5-50
Equipment	3-20
Vehicles and accessories	3-7
Office furniture and fixtures	3-20
Depletable assets	5-100
Land improvements (infrastructure)	10-50

In the Drain Commission component unit, infrastructure includes only those infrastructure assets acquired subsequent to January 1, 2003. In the Road Commission component unit, 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. Roads are removed from the capital assets at the time the group of individually recorded roads have fully been depreciated.

Depreciation is recorded on the capital assets of the Road Commission Component Unit over the estimated useful lives (ranging from 5 to 50 years) of the assets, using the sum-of-years digits method for road equipment as prescribed by the Uniform Accounting Procedures for Michigan County Road Commissions, which does not vary significantly from the straight-line basis, and straight-line method for all other capital assets.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Fund equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners (the government's highest level of decision-making authority). A formal resolution of the Board of Commissioners is required to establish, modify, or rescind a fund balance commitment. The County reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Commissioners has delegated the authority to assign fund balance to the County Administrator/Controller or his/her designee. Unassigned fund balance is the residual classification for the General Fund.

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

Interfund transactions

During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Subsidies are also recorded as transfers.

Internal Service Funds are used and record charges for services to all County departments and funds as operating revenue. All affected County funds record these payments to the Internal Service Funds as operating expenditures or expenses.

Compensated absences

Bay County, including its component units, except for the Road Commission and Department of Water and Sewer, has an employee benefit plan that allows employees to accumulate unused sick days up to a maximum of 90 days, except for the Medical Care Facility, which has no limit for accumulating unused sick days. The Road Patrol and Correctional Facility Officers employees may accumulate unused sick days up to a maximum of 120 days. Probate Court employees may accumulate a maximum of 30 unused sick days. Employees may either use these sick days when ill or receive payment for 50 percent of the unused portion at time of retirement, subject to certain limitations. Most employees are also allowed to accumulate unused vacation days, subject to certain limitations. All employees can accumulate and carryforward a maximum of 30 days; hours accumulated in excess of 30 days must be used by December 31.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Employees of the Road Commission, a component unit, are granted vacation and sick leave in varying amounts, based on the Road Commission's administrative policy and contract with union employees. Vacation time is credited annually to each employee but cannot be accumulated for more than one year without Board approval, with the exception that all employees can carry over five days without Board approval. Administrative employees and union employees are limited to 1,200 hours of sick leave accumulation. At this point, the employees are allowed to accumulate 96 hours of sick leave reserve, the unused portion of which is paid by the Road Commission at the beginning of the following year. Upon retirement, permanent disability or leaving the employment of the Road Commission, all union employees are paid 85% of their accumulated sick leave. Administrative employees are paid 85% of their accumulated sick leave upon leaving the employment of the Road Commission.

The Department of Water and Sewer, a component unit, has an employee benefit plan that allows employees to accumulate unused sick days up to a maximum of 120 days. Union employees may either use these sick days when ill or receive payment for 70% of the unused portion at time of retirement. All other employees receive 85% of the unused portion at time employment is terminated. Employees are also allowed to accumulate unused vacation days. Employees can accumulate a maximum of 30 days to carry over at the end of the year.

Compensated Absence Liability Recognition

Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

The long term portion of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

2. BUDGETARY INFORMATION

Governmental funds are under formal budgetary control. Capital Projects funds are budgeted by project. The County follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Ninety days prior to the beginning of the fiscal year, in accordance with the provisions of Public Act 139 of 1963 as amended by Public Act 100 of 1980 and in conformance with Act 2, Public Act 1968 as amended by Act 621 of 1978, the County Executive submits a proposed operating budget to the Ways and Means Committee, which recommends formal adoption by the Bay County Board of Commissioners. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments.
3. Prior to January 1, the budget is legally enacted by a budget adopting resolution.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Budgets shown in the financial statements were prepared on the same modified accrual basis that is used to reflect actual results. The Board of Commissioners has legal control over expenditures on an object class (categorical) basis, with the exception of the Circuit, District, and Probate courts, whose legal level of control over expenditures is on a total basis (lump sum) encompassing all of their operations. Expenditures are limited to appropriations for each object class (category) of budget data presented. The Board of Commissioners is authorized to make adjustments to the various budgets as deemed necessary. Elected officials and department/division heads are authorized to amend budgets under their control, subject to provisions of the General Appropriation Budget Act Resolution. Such adjustments and amendments have been reflected in the budgeted amounts shown in the financial statements. There were no supplemental appropriations that were deemed material. All appropriations lapse at year-end. Encumbrances that have lapsed are reappropriated. Budgetary expenditures represented by the encumbrances are reflected in the budget in the year that the expenditures are shown in the financial statements. The County has prepared and issued separate from the financial statements a report on budget amounts compared to actual at the legal level of budgetary control (by activity, by object class (category), by fund).

3. EXCESS OF EXPENDITURES OVER BUDGET

The County has prepared and issued separate from the financial statements a report on budget amounts, which includes a schedule reflecting the amount of any excess of expenditures over appropriations at the legal level of control. The following individual funds incurred expenditures in excess of appropriations, presented at a summary level for the County’s major and non-major governmental funds:

Fund	Appropriation	Expenditure	Excess Expenditure
General Fund:			
Health and welfare	\$ 926,874	\$ 927,950	\$ 1,076
Special Revenue Funds:			
911 Service:			
Principal	-	8,550	8,550
Law Library:			
Judicial	21,820	27,507	5,687
Historical Preservation:			
Recreation and culture	274,843	275,447	604

The above items represent violations of the County’s budgeting policies. Revenues were sufficient to cover all expenditures.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash, pooled investments and investments as shown in the basic financial statement for the County's deposits and investments is as follows:

	Primary Government	Component Units	Totals
Statement of Net Assets			
Cash and cash equivalents	\$ 8,151,809	\$ 12,580,581	\$ 20,732,390
Investments	26,657,425	4,130,802	30,788,227
Statement of Fiduciary Net Assets			
Pension and other employee benefits trust funds:			
Cash and cash equivalents	-	-	-
Investments	253,361,887	-	253,361,887
Other fiduciary funds:			
Cash and cash equivalents	4,292,259	-	4,292,259
Investments	5,599,439	-	5,599,439
Total	\$ 298,062,819	\$ 16,711,383	\$ 314,774,202
Deposits and investments			
Bank deposits (checking, savings, money markets and certificates of deposit)			\$ 17,931,652
Investments:			
Equities			
Domestic equities			163,045,292
Foreign equities			14,106,792
Convertible equity			1,693,387
Preferred stock			597,975
Corporate convertible bonds			14,994,480
Fixed income			
Asset backed securities			161,538
Corporate bonds**			25,858,440
Government agencies			17,520,286
Government bonds			10,363,064
Government mortgage backed securities			10,901,858
Municipal bonds			24,121,889
Government issued commercial mortgage-backed			828,388
Commercial mortgage-backed			248,151
Other fixed income			1,001,080
Money market			
Short-term investments			11,082,545
Cash and cash equivalents			278,097
Cash on hand			39,288
Total			\$ 314,774,202

** The County's investments in corporate bonds include call options with a market value of \$3,962,610.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

The County has adopted an official investment policy which is in accordance with investments permitted by Act 20 of the Michigan Public Acts of 1943 as amended, Act 196 PA 1997 (the Act). The Act generally allows the County to deposit funds in banks, savings and loan associations, and credit unions in the State of Michigan. The Act also provides for investment in U.S. government obligations; certificates of deposit of banks, savings and loans, and credit unions; commercial paper; repurchase agreements; bankers' acceptances; and, with some restrictions, mutual funds. Pension Trust funds are also allowed to invest in corporate stocks and bonds. Pension Trust fund investments are subject to a number of restrictions as to type, quality and concentration of investments. All investments are reported at fair value.

	Investment Type			
	Equities	Fixed Income	Money Markets	Total
Less than 1 year	\$ 159,900	\$ 7,821,334	\$ 11,082,545	\$ 19,063,779
1 - 5 years	7,350,893	33,223,719	-	40,574,612
6 - 10 years	3,116,944	31,213,445	-	34,330,389
More than 10 years	4,366,744	18,746,196	-	23,112,940
No maturity	179,443,445	-	-	179,443,445
Total	\$ 194,437,926	\$ 91,004,694	\$ 11,082,545	\$ 296,525,165

	Investment Type			
	Equities	Fixed Income	Money Markets	Total
AAA	\$ 1,584,116	\$ 11,369,037	\$ -	\$ 12,953,153
AA+	-	21,082,875	-	21,082,875
AA	-	112,240	-	112,240
AA-	-	5,762,177	-	5,762,177
A+	2,366,386	2,263,395	-	4,629,781
A	784,088	2,364,648	-	3,148,736
A-	3,301,699	6,287,579	-	9,589,278
B+	159,596	81,188	-	240,784
B	91,020	-	-	91,020
BBB+	1,380,050	10,527,740	-	11,907,790
BBB	606,704	3,979,056	-	4,585,760
BBB-	1,802,353	4,346,425	-	6,148,778
BB+	422,645	629,418	-	1,052,063
BB	200,008	778,988	-	978,996
BB-	537,806	130,876	-	668,682
SP-1	7,439,224	-	-	7,439,224
Not rated	173,762,231	21,289,052	11,082,545	206,133,828
Total	\$ 194,437,926	\$ 91,004,694	\$ 11,082,545	\$ 296,525,165

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments. The County's investment policy does not have specific limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The County's investment policy does not have specific limits on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end \$3,949,205 of the County's bank balance of \$18,576,989 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. However, the County's investment policy states that no more than 60 percent of the County investment portfolio will be invested with a single financial institution. However, while uninsured and unregistered, the County's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the County's name.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The County's investment policy states that with the exception of U.S. Treasury securities and authorized pools, no more than sixty percent of the County investment portfolio should be invested in a single security type. No single investment represents more than five percent of the County's investments. All investments held at year-end are reported above.

Investments and Securities Lending

A contract approved by the Bay County Board of Commissioners permits the Bay County Employees' Retirement System (the "System") to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives securities or cash as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral securities and cash are initially pledged at 102 percent of the fair value of United States securities lent and 105 percent of the fair value of non-United States securities, and may not fall below 100 percent during the term of the loan.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

There are no restrictions on the amount of the securities that can be loaned. Securities on loan at year-end are classified in the previous schedule of investments according to the category for the collateral received on the securities lent. At year-end the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

Employees' Retirement System Investments

The System's investments are primarily held in a bank-administered trust fund. Following is a summary of the System's investments as of December 31, 2011:

Investments at fair value, as determined by quoted market price:

Equities:	
Domestic equities	\$ 139,833,072
International equities	13,996,662
Convertible equity	1,693,387
Preferred stock	597,975
Corporate convertible bonds	14,994,480
Fixed income:	
Asset backed securities	161,538
Corporate bonds	23,311,631
Government agencies	428,754
Government bonds	10,363,064
Government mortgage-backed securities	10,901,858
Municipal bonds	146,029
Government issued commercial mortgage-backed	828,388
Commercial mortgage-backed	248,151
Money market:	
Short-term investments	7,997,021
Cash and cash equivalents	277,897
	<hr/>
Total investments in Employees' Retirement System	<u>\$ 225,779,907</u>

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in domestic and foreign stocks, government securities, corporate securities, mortgages, real estate and various other investment instruments, subject to certain limitations.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy emphasizes appropriate risk/return parameters and compliance with Public Act 314, and gives discretionary authority to its investment managers as opposed to establishing specific credit rating benchmarks.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

As of December 31, 2011, maturities and Standard & Poors ratings for the System's investments in debt securities were as follows:

	Investment Type			
	Equities	Fixed Income	Money Markets	Total
Less than 1 year	\$ 159,900	\$ -	\$ 7,997,021	\$ 8,156,921
1 - 5 years	7,350,893	8,823,756	-	16,174,649
6 - 10 years	3,116,944	21,225,588	-	24,342,532
More than 10 years	4,366,743	16,340,069	-	20,706,812
No maturity	156,121,096	-	-	156,121,096
Total	\$ 171,115,576	\$ 46,389,413	\$ 7,997,021	\$ 225,502,010

	Investment Type			
	Equities	Fixed Income	Money Markets	Total
AAA	\$ 1,584,116	\$ 10,363,064	\$ -	\$ 11,947,180
AA+	-	1,167,955	-	1,167,955
AA	-	112,240	-	112,240
AA-	-	276,116	-	276,116
A+	2,366,386	1,274,900	-	3,641,286
A	784,088	1,346,940	-	2,131,028
A-	3,301,699	4,731,180	-	8,032,879
B+	159,596	81,188	-	240,784
B	91,020	-	-	91,020
BBB+	1,380,050	4,507,752	-	5,887,802
BBB	606,704	4,007,714	-	4,614,418
BBB-	1,802,353	4,923,305	-	6,725,658
BB+	422,645	629,418	-	1,052,063
BB	200,008	499,328	-	699,336
BB-	537,806	130,875	-	668,681
Not rated	157,879,105	12,337,438	7,997,021	178,213,564
Total	\$ 171,115,576	\$ 46,389,413	\$ 7,997,021	\$ 225,502,010

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that securities be held in trust by a third-party institution in the System's name or its nominee custodian's name or in bearer form. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the System's name. Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's investment policy requires that no manager will hold more than 5% of its portion of the total fund in any single company and no more than 5% may be held in any single common stock. At December 31, 2011 the System's investment portfolio was not concentrated.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's investment policy does not discuss the maximum maturity for any single fixed income security or the weighted average portfolio maturity.

Foreign Currency Risk. Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The System has no policies relating to foreign currency risk. The System's exposure to foreign currency risk is summarized as follows:

Investment/Country	Currency	Fair Value (in U.S. Dollars)
Australia	Australian dollar	\$ 435,007
Brazil	US dollar	37,830
Canada	Canadian dollar	165,637
Canada	US dollar	431,730
China	US dollar	209,646
France	European euro	1,352,496
Germany	European euro	1,332,947
Hong Kong	Hong Kong dollar	188,017
International Region	US dollar	53,546
Ireland	US dollar	362,693
Israel	Israeli new sheqel	223,039
Israel	US dollar	795,267
Japan	Japanese yen	2,420,942
Korea, Republic of	Korean won	173,452
Korea, Republic of	US dollar	236,711
Mexico	US dollar	227,107
Netherlands	US dollar	572,523
Norway	Norwegian krone	85,659
Russian Federation	US dollar	205,545
Singapore	Singapore dollar	379,671
Switzerland	Swiss franc	982,147
United Kingdom	Great Britain pound	3,125,050
Total international equities		<u>\$ 13,996,662</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Voluntary Employees' Beneficiary Association Trust

The Trust's investments are primarily held in a bank-administered trust fund. Following is a summary of the Trust's investments as of December 31, 2011:

Investments at fair value, as determined by quoted market price:

Equities:	
Domestic equities	\$ 23,212,221
International equities	110,129
Fixed income:	
Corporate bonds	2,546,809
Government agencies	1,427,047
Money market:	
Short-term investments	<u>285,774</u>

Total investments in Voluntary Employees' Beneficiary Association trust	<u>\$ 27,581,980</u>
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Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Trust's investment policy emphasizes appropriate risk/return parameters and compliance with Public Act 314, and gives discretionary authority to its investment managers as opposed to establishing specific credit rating benchmarks.

As of December 31, 2011, maturities and Standard & Poors ratings for the Trust's investments in debt securities were as follows:

	Investment Type			
	Equities	Fixed Income	Money Markets	Total
Less than 1 year	\$ -	\$ 133,507	\$ 285,774	\$ 419,281
1 - 5 years	-	2,849,939	-	2,849,939
6 - 10 years	-	-	-	-
More than 10 years	-	990,410	-	990,410
No maturity	23,322,350	-	-	23,322,350
Total	<u>\$ 23,322,350</u>	<u>\$ 3,973,856</u>	<u>\$ 285,774</u>	<u>\$ 27,581,980</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

	Investment Type			
	Equities	Fixed Income	Money Markets	Total
AAA	\$ -	\$ -	\$ -	\$ -
AA+	-	1,427,047	-	1,427,047
AA-	-	294,750	-	294,750
A-	-	1,556,399	-	1,556,399
BBB	-	416,000	-	416,000
BB	-	279,660	-	279,660
Not rated	23,322,350	-	285,774	23,608,124
Total	\$ 23,322,350	\$ 3,973,856	\$ 285,774	\$ 27,581,980

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust's investment policy requires that securities be held in trust by a third-party institution in the Trust's name or its nominee custodian's name or in bearer form. Although uninsured and unregistered, the Trust's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Trust's name. Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer. The Trust's investment policy requires that no manager will hold more than 5% of its portion of the total fund in any single company and no more than 5% may be held in any single common stock. At December 31, 2011 the Trust's investment portfolio was not concentrated.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Trust's investment policy does not discuss the maximum maturity for any single fixed income security or the weighted average portfolio maturity.

Foreign Currency Risk. Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The Trust has no policies relating to foreign currency risk. The Trust's exposure to foreign currency risk is summarized as follows:

Investment/Country	Currency	Fair Value (in U.S. Dollars)
China	US dollar	\$ 35,057
United Kingdom	US dollar	75,072
Total international equities		\$ 110,129

BAY COUNTY, MICHIGAN

Notes To Financial Statements

5. RECEIVABLES

Receivables in the primary government and component units are as follows:

	Governmental Activities	Business-type Activities	Component Units
Taxes/special assessments:			
Current	\$ 6,699,508	\$ -	\$ 5,900,730
Non-current	84,134	5,672,566	596,686
Accounts	4,173,468	2,741,373	3,738,766
Interest	209,045	742,392	90,626
Intergovernmental	3,754,191	91,149	2,428,102
Less: allowance for uncollectible accounts	(1,051,448)	-	-
Total	\$ 13,868,898	\$ 9,247,480	\$ 12,754,910

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Property taxes receivable (General fund)	\$ 763,705	\$ -
Property taxes receivable (Mosquito control fund)	-	1,273,487
Property taxes receivable (911 service fund)	14,208	1,981,544
Property taxes receivable (Division on aging fund)	-	1,415,033
Property taxes receivable (Nonmajor government type funds)	-	552,126
Grant drawdown prior to meeting all eligibility requirements	-	476,824
Total	\$ 777,913	\$ 5,699,014

BAY COUNTY, MICHIGAN

Notes To Financial Statements

6. CAPITAL ASSETS

Primary government

Capital assets activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,926,399	\$ -	\$ -	\$ -	\$ 1,926,399
Construction in progress	1,022,555	212,294	-	(870,060)	364,789
	<u>2,948,954</u>	<u>212,294</u>	<u>-</u>	<u>(870,060)</u>	<u>2,291,188</u>
Capital assets, being depreciated:					
Land improvements	2,961,405	94,191	-	-	3,055,596
Buildings and improvements	64,200,094	651,834	(56,255)	-	64,795,673
Machinery and equipment	2,418,103	754,447	-	870,060	4,042,610
Office furniture and equipment	3,121,612	247,649	(4,613)	-	3,364,648
Vehicles	1,693,758	170,388	(165,864)	-	1,698,282
	<u>74,394,972</u>	<u>1,918,509</u>	<u>(226,732)</u>	<u>870,060</u>	<u>76,956,809</u>
Less accumulated depreciation for:					
Land improvements	(2,166,601)	(156,080)	-	-	(2,322,681)
Buildings and improvements	(20,533,579)	(1,380,061)	31,096	-	(21,882,544)
Machinery and equipment	(1,284,048)	(110,352)	-	-	(1,394,400)
Office furniture and equipment	(1,896,709)	(179,319)	4,613	-	(2,071,415)
Vehicles	(1,189,612)	(155,617)	141,297	-	(1,203,932)
	<u>(27,070,549)</u>	<u>(1,981,429)</u>	<u>177,006</u>	<u>-</u>	<u>(28,874,972)</u>
Total capital assets being depreciated, net	<u>47,324,423</u>	<u>(62,920)</u>	<u>(49,726)</u>	<u>870,060</u>	<u>48,081,837</u>
Governmental activities capital assets, net	<u>\$ 50,273,377</u>	<u>\$ 149,374</u>	<u>\$ (49,726)</u>	<u>\$ -</u>	<u>\$ 50,373,025</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 257,559	\$ -	\$ -	\$ -	\$ 257,559
Construction in progress	36,449	16,964	-	(20,521)	32,892
	<u>294,008</u>	<u>16,964</u>	<u>-</u>	<u>(20,521)</u>	<u>290,451</u>
Capital assets, being depreciated:					
Land improvements	1,108,718	-	-	-	1,108,718
Buildings and improvements	17,026,204	39,666	-	-	17,065,870
Machinery and equipment	1,042,272	57,146	(21,513)	20,521	1,098,426
Office furniture and equipment	2,214,629	18,498	-	-	2,233,127
Vehicles	123,876	-	-	-	123,876
	<u>21,515,699</u>	<u>115,310</u>	<u>(21,513)</u>	<u>20,521</u>	<u>21,630,017</u>
Less accumulated depreciation for:					
Land improvements	(791,625)	(39,935)	-	-	(831,560)
Buildings and improvements	(9,702,295)	(712,607)	-	-	(10,414,902)
Machinery and equipment	(871,082)	(45,139)	18,865	-	(897,356)
Office furniture and equipment	(1,817,853)	(78,046)	-	-	(1,895,899)
Vehicles	(68,307)	(14,357)	-	-	(82,664)
	<u>(13,251,162)</u>	<u>(890,084)</u>	<u>18,865</u>	<u>-</u>	<u>(14,122,381)</u>
Total capital assets being depreciated, net	<u>8,264,537</u>	<u>(774,774)</u>	<u>(2,648)</u>	<u>20,521</u>	<u>7,507,636</u>
Business-type activities capital assets, net	<u>\$ 8,558,545</u>	<u>\$ (757,810)</u>	<u>\$ (2,648)</u>	<u>\$ -</u>	<u>\$ 7,798,087</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function

Judicial	\$ 17,468
General government	1,385,739
Public safety	262,390
Health and welfare	206,803
Recreation and culture	109,029
	<u>\$ 1,981,429</u>

Depreciation of business-type activities by function

Medical Care Facility	\$ 613,372
Housing	201,870
Golf Course	52,967
Delinquent Property Tax Foreclosure	21,875
	<u>\$ 890,084</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Discretely presented component units

Activity for the Road Commission for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 501,981	\$ 4,000	\$ -	\$ -	\$ 505,981
Land improvements	47,881,161	2,031,594	-	-	49,912,755
Right of ways	349,661	-	-	-	349,661
	<u>48,732,803</u>	<u>2,035,594</u>	<u>-</u>	<u>-</u>	<u>50,768,397</u>
Capital assets, being depreciated:					
Buildings and improvements	2,702,867	24,111	-	-	2,726,978
Road equipment	9,723,006	580,061	(190,971)	-	10,112,096
Shop equipment	169,807	6,222	-	-	176,029
Office equipment	159,488	8,000	-	-	167,488
Engineering equipment	173,377	9,867	-	-	183,244
Yard and storage	1,353,313	6,073	-	-	1,359,386
Infrastructure:					
Roads	49,201,687	3,047,391	(1,192,168)	-	51,056,910
Bridges	18,248,137	318,293	-	-	18,566,430
Traffic signals	419,579	68,451	-	-	488,030
Depletable assets:					
Gravel pits	53,037	-	-	-	53,037
	<u>82,204,298</u>	<u>4,068,469</u>	<u>(1,383,139)</u>	<u>-</u>	<u>84,889,628</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,756,079)	(72,546)	-	-	(1,828,625)
Road equipment	(9,627,671)	(428,929)	190,971	-	(9,865,629)
Shop equipment	(172,857)	(6,087)	-	-	(178,944)
Office equipment	(105,212)	(9,267)	-	-	(114,479)
Engineering equipment	(118,984)	(13,432)	-	-	(132,416)
Yard and storage	(955,688)	(59,224)	-	-	(1,014,912)
Infrastructure:					
Roads	(24,441,016)	(2,666,042)	1,192,168	-	(25,914,890)
Bridges	(8,113,926)	(371,703)	-	-	(8,485,629)
Traffic signals	(266,382)	(18,592)	-	-	(284,974)
Depletable assets:					
Gravel pits	(14,491)	(56)	-	-	(14,547)
	<u>(45,572,306)</u>	<u>(3,645,878)</u>	<u>1,383,139</u>	<u>-</u>	<u>(47,835,045)</u>
Total capital assets being depreciated, net	<u>36,631,992</u>	<u>422,591</u>	<u>-</u>	<u>-</u>	<u>37,054,583</u>
Road Commission capital assets, net	<u>\$ 85,364,795</u>	<u>\$ 2,458,185</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,822,980</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Activity for the Library System for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 107,487	\$ -	\$ -	\$ -	\$ 107,487
Capital assets, being depreciated:					
Land improvements	103,946	-	-	-	103,946
Buildings and improvements	1,171,086	-	-	-	1,171,086
Machinery and equipment	136,810	-	(1,449)	-	135,361
Office furniture and equipment	1,216,249	-	(18,533)	-	1,197,716
Books and a/v materials	2,792,050	475,577	(455,170)	-	2,812,457
Vehicles and other	182,770	-	-	-	182,770
	<u>5,602,911</u>	<u>475,577</u>	<u>(475,152)</u>	<u>-</u>	<u>5,603,336</u>
Less accumulated depreciation for:					
Land improvements	(53,786)	(3,272)	-	-	(57,058)
Buildings and improvements	(754,830)	(31,851)	-	-	(786,681)
Machinery and equipment	(90,980)	(7,055)	1,449	-	(96,586)
Office furniture and equipment	(589,789)	(56,048)	18,533	-	(627,304)
Books and a/v materials	(1,300,298)	(467,355)	455,170	-	(1,312,483)
Vehicles and other	(179,152)	(1,972)	-	-	(181,124)
	<u>(2,968,835)</u>	<u>(567,553)</u>	<u>475,152</u>	<u>-</u>	<u>(3,061,236)</u>
Total capital assets being depreciated, net	<u>2,634,076</u>	<u>(91,976)</u>	<u>-</u>	<u>-</u>	<u>2,542,100</u>
Library System capital assets, net	<u>\$ 2,741,563</u>	<u>\$ (91,976)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,649,587</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Activity for the Department of Water & Sewer for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 196,284	\$ -	\$ -	\$ -	\$ 196,284
Construction in progress	9,674,583	-	(9,409,389)	-	265,194
	<u>9,870,867</u>	<u>-</u>	<u>(9,409,389)</u>	<u>-</u>	<u>461,478</u>
Capital assets, being depreciated:					
Buildings and improvements	13,300,694	-	-	-	13,300,694
Improvements other than buildings	120,403	410,008	-	-	530,411
Machinery and equipment	8,860,017	727,145	-	-	9,587,162
Water system	4,146,162	235,546	-	-	4,381,708
Sewer system	17,169,768	9,076,432	-	-	26,246,200
	<u>43,597,044</u>	<u>10,449,131</u>	<u>-</u>	<u>-</u>	<u>54,046,175</u>
Less accumulated depreciation for:					
Buildings and improvements	(7,765,213)	(275,955)	-	-	(8,041,168)
Improvements other than buildings	(85,686)	(44,496)	-	-	(130,182)
Machinery and equipment	(8,422,942)	(187,255)	-	-	(8,610,197)
Water system	(1,862,063)	(96,939)	-	-	(1,959,002)
Sewer system	(9,954,028)	(570,305)	-	-	(10,524,333)
	<u>(28,089,932)</u>	<u>(1,174,950)</u>	<u>-</u>	<u>-</u>	<u>(29,264,882)</u>
Total capital assets being depreciated, net	<u>15,507,112</u>	<u>9,274,181</u>	<u>-</u>	<u>-</u>	<u>24,781,293</u>
Department of Water & Sewer capital assets, net	<u>\$ 25,377,979</u>	<u>\$ 9,274,181</u>	<u>\$ (9,409,389)</u>	<u>\$ -</u>	<u>\$ 25,242,771</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Activity for the Drain Commission for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 340,673	\$ -	\$ -	\$ -	\$ 340,673
Capital assets, being depreciated:					
Land improvements (infrastructure)	3,376,527	102,714	-	-	3,479,241
Buildings	171,681	-	-	-	171,681
Machinery and equipment	545,381	-	-	-	545,381
Office furniture and equipment	20,450	-	-	-	20,450
Vehicles	201,847	45,397	(66,477)	-	180,767
	<u>4,315,886</u>	<u>148,111</u>	<u>(66,477)</u>	<u>-</u>	<u>4,397,520</u>
Less accumulated depreciation for:					
Land improvements (infrastructure)	(334,357)	(127,204)	-	-	(461,561)
Buildings	(171,681)	-	-	-	(171,681)
Machinery and equipment	(178,110)	(25,615)	-	-	(203,725)
Office furniture and equipment	(20,450)	-	-	-	(20,450)
Vehicles	(91,701)	(19,343)	50,676	-	(60,368)
	<u>(796,299)</u>	<u>(172,162)</u>	<u>50,676</u>	<u>-</u>	<u>(917,785)</u>
Total capital assets being depreciated, net	<u>3,519,587</u>	<u>(24,051)</u>	<u>(15,801)</u>	<u>-</u>	<u>3,479,735</u>
Drain Commission capital assets, net	<u>\$ 3,860,260</u>	<u>\$ (24,051)</u>	<u>\$ (15,801)</u>	<u>\$ -</u>	<u>\$ 3,820,408</u>

Activity for the Bay Area Narcotics Enforcement Team for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, being depreciated:					
Equipment	\$ 100,482	\$ -	\$ -	\$ -	\$ 100,482
Less accumulated depreciation for:					
Equipment	(61,438)	(19,411)	-	-	(80,849)
Bay Area Narcotics Enforcement Team capital assets, net	<u>\$ 39,044</u>	<u>\$ (19,411)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,633</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

7. PAYABLES

Accounts payable and accrued liabilities in the primary government and component units are as follows:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 2,511,643	\$ 440,538	\$ 1,342,997
Wages, fringe benefits and other accrued liabilities	1,154,174	753,551	128,336
Deposits	1,270	39,855	-
Intergovernmental	229,404	27,366	501,044
Advances	29,000	-	296,199
Claims, settlements, and judgments	754,697	780,992	-
Total	\$ 4,680,188	\$ 2,042,302	\$ 2,268,576

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

	Due from Other Funds	Due to Other Funds
General fund	\$ 510	\$ 416,327
Mosquito control fund	-	334
911 service fund	-	1,340
Division on aging fund	-	1,220
Homeland security fund	-	84
Nonmajor governmental funds	-	3,455
100% tax payment	425,224	13,027
Nonmajor enterprise funds	12,402	25,774
Internal service funds	23,437	12
Total	\$ 461,573	\$ 461,573

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	Advance From Other Funds	Advance to Other Funds
General fund	\$ 50,000	\$ -
Homeland security fund	-	50,000
Total	\$ 50,000	\$ 50,000

BAY COUNTY, MICHIGAN

Notes To Financial Statements

The advance between the General fund and the Homeland Security fund was an advance to assist the fund with cash flow and start up.

Transfers Out	General Fund	Transfers In			Total
		Division on Aging Fund	Nonmajor Governmental Funds	100% Tax Payment	
General fund	\$ -	\$ 6,200	\$ 2,819,111	\$ -	\$ 2,825,311
Mosquito control fund	98,595	-	-	-	98,595
911 service fund	216,889	-	-	-	216,889
Division on aging fund	321,967	-	-	-	321,967
Nonmajor governmental funds	503,828	-	-	-	503,828
100% tax payment	772,321	-	-	-	772,321
Nonmajor enterprise funds	39,073	-	-	174,188	213,261
Total	\$ 1,952,673	\$ 6,200	\$ 2,819,111	\$ 174,188	\$ 4,952,172

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund and state revenue sharing special revenue fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

9. LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
Governmental activities:					
Building Authority - General					
obligation bonds	\$ 17,110,000	\$ -	\$ (1,710,000)	\$ 15,400,000	\$ 1,755,000
Maintenance agreement payable	17,100	-	(8,550)	8,550	8,550
Compensated absences	2,102,763	1,951,281	(1,967,818)	2,086,226	258,239
Total governmental activities	\$ 19,229,863	\$ 1,951,281	\$ (3,686,368)	\$ 17,494,776	\$ 2,021,789
Business-type activities:					
Compensated absences	\$ 399,402	\$ 4,512	\$ (43,808)	\$ 360,106	\$ 28,332
Component Units					
Road Commission:					
Compensated absences	\$ 719,139	\$ 449,469	\$ (302,053)	\$ 866,555	\$ 300,000
Library System:					
Compensated absences	\$ 172,068	\$ 37,372	\$ (22,454)	\$ 186,986	\$ 18,697
Department of Water & Sewer:					
General obligation bonds					
obligation bonds	\$ 9,650,000	\$ -	\$ (1,515,000)	\$ 8,135,000	\$ 1,000,000
Compensated absences	193,281	35	-	193,316	28,997
Total Department of Water & Sewer	\$ 9,843,281	\$ 35	\$ (1,515,000)	\$ 8,328,316	\$ 1,028,997
Drain Commission:					
General obligation bonds					
obligation bonds	\$ 654,351	\$ -	\$ (376,087)	\$ 278,264	\$ 126,088
Notes payable	667,635	-	(166,698)	500,937	116,321
Total Drain Commission	\$ 1,321,986	\$ -	\$ (542,785)	\$ 779,201	\$ 242,409

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for those funds are included as part of the above totals for governmental activities. At year-end, \$1,561 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Primary Government

The County issues general obligation bonds, installment purchase contracts, and capital leases to provide funds for the acquisition, renovation, and / or construction of major capital facilities and purchase of major equipment. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds and notes payable issued in prior years was \$32,378,145. During the year ended December 31, 2008, the County entered into a maintenance agreement in the amount of \$42,750.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are generally issued as 5 to 20-year serial bonds with varying amounts of principal maturing each year. Installment purchase contracts are generally issued as 5 year contracts payable with varying amounts of principal maturing each year. General obligation bonds and installment purchase contracts currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.5 - 8.0%	<u>\$ 15,408,550</u>

Annual debt service requirements to maturity for general obligation bonds and installment purchase contracts are as follows:

Year Ended December 31,	Governmental Activities	
	Principal	Interest
2012	\$ 1,763,550	\$ 699,327
2013	1,870,000	619,368
2014	1,990,000	532,564
2015	2,105,000	438,156
2016	1,865,000	337,243
2017-2020	<u>5,815,000</u>	<u>936,009</u>
	<u>\$ 15,408,550</u>	<u>\$ 3,562,667</u>

Component Units

Department of Water & Sewer. General obligation bonds are issued by the County to finance construction projects managed and administered by the Department of Water & Sewer. General obligation and revenue bonds have been issued for business-type activities.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

These bonds are direct obligations, and pledge the full faith and credit of the County and the associated municipalities and authorities. The bonds are issued as 10- to 30-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Business-type activities	2.0 - 5.4%	<u>\$ 8,135,000</u>

Annual debt service requirements to maturity for Department of Water and Sewer bonds are as follows:

Year Ended December 31,	Business-type Activities	
	Principal	Interest
2012	\$ 1,000,000	\$ 1,309,153
2013	570,000	851,110
2014	585,000	846,372
2015	605,000	845,006
2016	620,000	837,858
2011-2021	2,080,000	2,852,746
2022-2026	1,360,000	1,822,082
2027-2030	1,315,000	1,461,394
	<u>\$ 8,135,000</u>	<u>\$ 10,825,721</u>

Drain Commission. General obligation drain improvement bonds and notes are issued by the County to finance certain drainage district construction projects. General obligation bonds and notes have been issued for governmental activities. The original amount of general obligation bonds and notes issued in prior years was \$6,755,547.

These bonds and notes are direct obligations, and pledge the full faith and credit of the County and the respective drainage districts. The bonds are generally issued as 5- to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds and notes currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.25 - 8.0%	<u>\$ 779,201</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Year Ended December 31,	Governmental Activities	
	Principal	Interest
2012	\$ 242,409	\$ 29,976
2013	166,242	20,965
2014	166,242	14,100
2015	90,154	8,752
2016	90,154	4,930
2017-2018	24,000	6,581
	<u>\$ 779,201</u>	<u>\$ 85,304</u>

Advance refundings

On May 10, 2006, the Bay County Building Authority issued general obligation bonds of \$7,205,000. A portion of the proceeds from this bond issue were used in a current refunding of the 1997 ice/civic arena bonds. The remaining proceeds from this bond issue were used to advance refund the 1995 and 1997 courthouse facility bonds and the remainder of the 1997 ice/civic arena bonds. The courthouse facility refunded bonds mature as scheduled on May 1 through 2017 and the ice/civic arena refunded bonds mature as scheduled on November 1 through 2015. The balance of the defeased debt outstanding at December 31, 2011, was \$4,580,000.

10. DEFINED BENEFIT PENSION PLAN

Plan Description - The County maintains a single-employer defined benefit pension plan, the Bay County Employees' Retirement System (the "Plan"), covering substantially all employees of the primary government. Employees of the County's component units, including Road Commission, Library System, and Department of Water and Sewer, participate in the County's plan. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Plan does not issue stand-alone financial statements and is not included in the financial report of any other entity.

Funding Policy/Contributions - 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. The current rate is 0% of annual covered payroll for General County and the Sheriff's Department, 2.74% for the Library, 7.40% for Department of Water & Sewer, 5.05% for Medical Care Facility, 8.83% for Bay Area Behavioral Health, and 18.05% for the Road Commission, which was determined through an actuarial valuation performed at December 31, 2010. During 2011, the General County made a discretionary 3% contribution into the Plan. Contributions received from employer contributions for the year ended December 31, 2011, amounted to \$2,997,633. Plan members contribute at a rate of 4% of their annual salary. The County pays the plan member contributions for all employee groups. Contributions received from plan members for the year ended December 31, 2011, amounted to \$1,267,847. 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 also administers the plan, in accordance with County policies, union contracts, and plan provisions.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Basis of Accounting - The financial statements of the Bay County Employees' Retirement System are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period they are due. The County's contributions to the Plan are recognized when due and they have made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Administrative Expenses - The Bay County Employees' Retirement System is administered by Bay County. Administrative expenses such as trustee and actuarial fees, are paid by the System. Fees for investment counseling are paid by the Plan.

Benefits - A plan member may retire after reaching the age of 60 with 8 or more years of service. Sheriff Dispatchers and Bay Medical Care Facility employees may retire at 30 years of service regardless of age, or age 55 with 25 years of service. Road Patrol employees may retire with 25 years of service regardless of age. Correctional Facility Officers employees may retire at age 55 with 25 years of service. Road Commission employees may retire at 30 years of service regardless of age. All other plan members may retire at age 55 with 30 years of service. The Plan also provides early retirement to its members.

Eligible employees are provided benefits based on 2.25% of their final average compensation times the number of years of credited service (2.0% for Behavioral Health AFSCME, 2.5% for Sheriff-Supervisory, CFO, Central Dispatch, District Court Union and Road Commission employees and 2.8% for Sheriff-Road Patrol). Maximum retirement is 75% of final average compensation, defined as the average of the highest five years. For those who retire early, in accordance with the Plan provisions, the benefit is reduced to the actuarial equivalent of a pension at normal retirement age.

Duty death in service benefits provided by the County upon termination of workers' compensation payments entitle the plan member's spouse to a refund of accumulated contributions plus a benefit equal to the workers' compensation amount. Unmarried children under the age of 18 and parents receive a benefit equal to the workers' compensation amount. Non-duty death in service benefits, after ten years of service, are computed as a regular retirement, actuarially reduced in accordance with a 100% joint and survivor election.

Duty disability benefits provided by the County are computed as a regular retirement, with additional service credited until attainment of age 55, less an amount offset by workers' compensation payments. Non-duty disability benefits, after ten years of credited service, are computed as a regular retirement less an amount offset by workers' compensation payments.

Classes of Employees - The Plan's membership consists of the following at December 31, 2010, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	705
Terminated plan members entitled to, but not yet receiving benefits	86
Active plan members	1,155

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Annual Pension Cost - The County's annual pension cost and net pension asset for the current year were as follows:

Annual required contribution	\$ 2,402,962
Interest on net pension asset	(37,479)
Adjustment to annual required contribution	<u>49,972</u>
Annual pension costs (expense)	2,415,455
Contributions made	<u>(2,997,633)</u>
Increase in net pension asset	(582,178)
Net pension (asset), beginning of year	<u>(499,717)</u>
Net pension (asset), end of year	<u>\$ (1,081,895)</u>

The annual required contribution for the current year was determined as part of the December 31, 2009, actuarial valuation using the individual entry age normal cost method. Significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4.0% per year pay inflation plus merit and longevity, (c) additional projected salary increases ranging from 1.0 to 8.0% per year, depending on age, attributable to merit and longevity, and (d) the assumption that benefits will not increase after retirement.

Unfunded actuarial accrued liabilities or asset surpluses are amortized by level percent of payroll contributions. The amortization periods used are open. If the liabilities exceed the assets, the difference is amortized over 30 years; if the assets exceed the liabilities the difference is amortized over 10 years. These periods are re-established with each annual actuarial valuation. The actuarial value of assets is determined by adding contributions and regular investment income to valuation assets at the beginning of the year and reducing that amount by benefit payments and administrative expenses. This preliminary value is then adjusted by 20% of the fair value gains and losses for each of the last 5 years.

Three-Year Trend Information			
Years Ended December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2009	\$ 1,749,408	100%	\$ -
2010	2,254,792	122%	499,717
2011	2,415,455	124%	1,081,895

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the Plan was 106 percent funded. The actuarial accrued liability for benefits was \$231,625,254, and the actuarial value of assets was \$244,728,050, resulting in an unfunded actuarial accrued liability (UAAL) of \$(13,102,796), which means the Plan is over-funded. The covered payroll (annual payroll for active employee covered by the Plan) was \$47,090,560 and the ratio for the UAAL to the covered payroll was (28)%.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

The schedules of funding progress, presented as required supplementary information (“RSI”) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Net assets Reserved for Employees’ Pension Benefits - Net assets reserved for employees’ pension benefits includes legally required reserves. Net assets as of December 31, 2011, consists of the following reserves:

Annuity reserve	\$ 109,656,207
Employer reserve	87,426,664
Employee accumulated reserve	<u>28,639,102</u>
Total net assets	<u><u>\$ 225,721,973</u></u>

Annuity reserve represents the cumulative contribution for retirees, disabled members, or surviving spouses who have elected monthly annuity benefits. Employer reserves represent the reserve for employer contributions, with County contributions, excluding member contributions made on behalf of employees, which are credited to the reserve for member contributions. Employee reserves represent the reserve into which the Retirement System shall make transfers and refunds of accumulated member contributions.

11. POSTRETIREMENT HEALTHCARE AND LIFE INSURANCE BENEFITS

The County also sponsors a retiree healthcare plan through a Voluntary Employees Beneficiary Association (“VEBA”) trust (the “Plan”). The plan is a single employer defined benefit public retiree healthcare plan established effective October 1, 2001. The purpose of the plan is to provide medical and healthcare benefits for the welfare of certain retirees of the County and the spouses and dependents of such retirees who are participants in the Bay County Retirement System. Benefits under the plan are provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. The County Board of Commissioners has the authority to establish and amend benefit provisions. The Plan does not issue stand-alone financial statements and is not included in the financial report of any other entity.

Basis of Accounting - The Plan’s financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Plan is a contributory defined benefit plan which covers substantially all employees of Bay County as defined above. At December 31, 2009, the date of the latest actuarial valuation, participants in the plan consisted of:

Retired members and beneficiaries:	
Under age 65	189
Age 65 and over	263
Active plan members	1,007

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Employees become eligible for postretirement benefits if they reach normal retirement age while working for the County. Benefits for employees begin the first month following their date of retirement.

The insurance for General County retirees is paid for by the employer, with required copayments, if any, determined annually. In addition, some bargaining units' contracts provide for the County paying 50 percent of the retirees' current (at the time of retirement) spouses' insurance. Premiums for all other dependents covered on the policy are at the expense of the retiree.

Road Commission, Department of Water and Sewer, and Bay Medical Care Facility retirees have 100 percent of their premiums paid for by the County. The County also pays 100 percent of premiums for spouses of retirees of the Road Commission and Bay Medical Care Facility.

The Library pays 50% of the health insurance premiums for employees who retire between the ages of 60 and 65. Employees who retire at age 65 or later are entitled to 100% employer paid health insurance. Spousal premiums are at the expense of the retiree.

The postretirement benefits are financed on a pay-as-you-go basis. The amount of expenditures for the benefits is recognized during the period incurred. The premiums are paid by the County. Employees make no contribution directly to the County for their share of the expense. The cost of retiree healthcare and life insurance benefits for 2011 was approximately \$4,500,111.

The December 31, 2009, actuarial valuation identified the required employer contribution ranging from \$158,175 - \$3,475,891 of covered payroll, depending on employee group and amortization period. Contributions to the Plan for the year-ended December 31, 2011, were \$1,396,843.

Annual OPEB Cost and Net OPEB Obligation - The County's annual other postemployment benefit ("OPEB") cost (expense) 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 a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 4,041,955
Interest on net OPEB obligation	279,781
Adjustment to annual required contribution	<u>(1,018,969)</u>
Annual OPEB cost (expense)	3,302,767
Contributions made	<u>(1,396,843)</u>
Increase in net OPEB obligation	1,905,924
Net OPEB obligation, beginning of year	<u>4,663,026</u>
Net OPEB obligation, end of year	<u><u>\$ 6,568,950</u></u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Medical Care Facility - For the year ended December 31, 2011, the Facility, as part of the County's plan, has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2009. The valuation's computed contribution and actual funding are summarized as follows for the year ended December 31, 2011:

Annual required contribution	\$ 3,475,891
Interest on net OPEB obligation	180,000
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	3,655,891
Contributions made	<u>(1,818,891)</u>
Increase in net OPEB obligation	1,837,000
Net OPEB obligation, beginning of year	<u>5,991,000</u>
Net OPEB obligation, end of year	<u><u>\$ 7,828,000</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

Three-Year Trend Information				
	Years Ended December 31,	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
County:	2009	\$ 2,004,142	39%	\$ 2,314,503
	2010	3,506,657	33%	4,663,026
	2011	3,302,767	42%	6,568,950
Medical Care Facility:	2009	\$ 4,228,318	45%	\$ 4,464,000
	2010	3,629,479	58%	5,991,000
	2011	3,655,891	50%	7,828,000

Marketable securities are stated at aggregate fair value. Securities which are traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the last reported bid price. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the County Commission, with the assistance of a valuation service.

Funded Status and Funding Progress - County. As of December 31, 2009, the most recent actuarial valuation date, the Plan was 15 percent funded. The actuarial accrued liability for benefits was \$52,849,402, and the actuarial value of assets was \$7,800,435, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,048,967.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Funded Status and Funding Progress - Medical Care Facility. As of December 31, 2009, the most recent actuarial valuation date, the Plan was 10 percent funded. The actuarial accrued liability for benefits was \$39,490,324, and the actuarial value of assets was \$3,847,374, resulting in an unfunded actuarial accrued liability (UAAL) of \$35,642,950. The covered payroll (annual payroll for active employee covered by the Plan) was \$6,696,336 and the ratio for the UAAL to the covered payroll was 532%.

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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.

Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2009
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Assets valuation method	5-year smoothed market
Actuarial assumptions	
Investment rate of return*	7.5% - active 6.0% - retirees
Healthcare cost trend rate*	10% initial 4% ultimate

*Included an inflation assumption of 4%

In addition, the Library System, Department of Water and Sewer, and Road Commission, provide certain health insurance benefits to their employees. The Bay Medical Care Facility also provides life insurance to retirees. The coverage amount is either \$2,500, \$3,500, or \$5,000, depending on the terms of the bargaining unit contract in effect at the time the employee retired. The County also provides life insurance to nonrepresented retirees as of March 1, 1998. The coverage amount is \$10,000.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Road Commission

During 2002, the Road Commission started participation in the Bay County Public Employee Health Care Plan.

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 30 years.

The Road Commission's annual OPEB cost for the year, the amount actuarially contributed, and changes in the net OPEB obligation are as follows:

Annual required contribution	\$ 2,052,127
Interest on net OPEB obligation	332,982
Adjustment to annual required contribution	<u>(403,180)</u>
Annual OPEB cost (expense)	1,981,929
Contributions made	<u>(1,242,363)</u>
Increase in net OPEB obligation	739,566
Net OPEB obligation, beginning of year	<u>5,549,701</u>
Net OPEB obligation, end of year	<u><u>\$ 6,289,267</u></u>

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011 was as follows:

Three-Year Trend Information			
Years Ended December 31,	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2009	\$ 3,326,342	29%	\$ 4,746,937
2010	1,983,499	60%	5,549,701
2011	1,981,929	63%	6,289,267

Funded Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the Plan was 2 percent funded. The actuarial accrued liability for benefits was \$25,314,167, and the actuarial value of assets was \$607,641, resulting in an unfunded actuarial accrued liability (UAAL) of \$24,706,526. The covered payroll (annual payroll for active employee covered by the Plan) was \$2,995,142 and the ratio for the UAAL to the covered payroll was 825%.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Library System

The following table shows the components of the Library’s annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the Library’s net OPEB asset:

Annual required contribution	\$ 158,175
Interest on net OPEB obligation	210
Adjustment to annual required contribution	<u>(766)</u>
Annual OPEB cost (expense)	157,619
Contributions made	<u>(64,448)</u>
Increase in net OPEB obligation	93,171
Net OPEB obligation, beginning of year	<u>3,503</u>
Net OPEB obligation, end of year	<u><u>\$ 96,674</u></u>

The Library’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

Three-Year Trend Information			
Years Ended December 31,	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB (Asset) Obligation
2009	\$ 394,148	75%	\$ (106,775)
2010	169,615	35%	3,503
2011	157,619	41%	96,674

Funded Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the Plan was 44 percent funded. The actuarial accrued liability for benefits was \$2,149,808, and the actuarial value of assets was \$936,547, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,213,261.

Department of Water and Sewer

Bay County Department of Water and Sewer participates in the Voluntary Employees Beneficiary Association (“VEBA”) trust through the County of Bay.

The DWS’ annual OPEB cost is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table illustrates the components of the DWS’ annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the DWS’ net OPEB obligation:

BAY COUNTY, MICHIGAN

Notes To Financial Statements

Annual required contribution	\$ 499,766
Interest on net OPEB asset	(8,077)
Adjustment to annual required contribution	<u>4,487</u>
Annual OPEB cost (expense)	496,176
Contributions made	<u>(547,135)</u>
Increase in net OPEB asset	(50,959)
Net OPEB (asset), beginning of year	<u>(134,620)</u>
Net OPEB obligation, end of year	<u><u>\$ (185,579)</u></u>

The DWS's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

Three-Year Trend Information			
Years Ended December 31,	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2009	\$ 760,287	97%	\$ 154,341
2010	484,659	160%	(134,620)
2011	496,176	110%	(185,579)

Funded Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the Plan was 24 percent funded. The actuarial accrued liability for benefits was \$8,196,281, and the actuarial value of assets was \$2,002,881, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,193,400.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

12. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT FUNDS

	Plan Net Assets		
	Pension Trust Fund	VEBA Trust Fund	Total
Assets			
Investments, at fair value:			
Equities	\$ 171,115,576	\$ 23,322,350	\$ 194,437,926
Fixed income	46,389,413	3,973,856	50,363,269
Money market	7,997,021	285,774	8,282,795
Other	277,897	-	277,897
Total investments	<u>225,779,907</u>	<u>27,581,980</u>	<u>253,361,887</u>
Receivables:			
Interest and dividends	690,705	68,355	759,060
Accounts	118,539	108,049	226,588
Total receivables	<u>809,244</u>	<u>176,404</u>	<u>985,648</u>
Other current assets:			
Prepaid items and other assets	105,379	-	105,379
Net pension asset	3,065	-	3,065
Due from other funds	132	-	132
Due from component units	49,035	-	49,035
Total other current assets	<u>157,611</u>	<u>-</u>	<u>157,611</u>
Total assets	<u>226,746,762</u>	<u>27,758,384</u>	<u>254,505,146</u>
Liabilities			
Accounts payable	421,097	491	421,588
Accrued liabilities	588,375	44,671	633,046
Accrued vacation and sick pay	6,244	-	6,244
Due to other funds	132	-	132
Net OPEB obligation	8,941	-	8,941
Total liabilities	<u>1,024,789</u>	<u>45,162</u>	<u>1,069,951</u>
Net assets			
Held in trust for:			
Employees' retirement system	225,721,973	-	225,721,973
Public employee healthcare	-	27,713,222	27,713,222
Total net assets	<u>\$ 225,721,973</u>	<u>\$ 27,713,222</u>	<u>\$ 253,435,195</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

	Plan Net Assets		
	Pension Trust Fund	VEBA Trust Fund	Total
Additions			
Contributions:			
Employer	\$ 3,011,323	\$ 1,140,834	\$ 4,152,157
Current premium contributions	-	1,396,843	1,396,843
Plan members	2,045,568	-	2,045,568
Total contributions	5,056,891	2,537,677	7,594,568
Investment income:			
Net appreciation in fair value of securities	(5,925,842)	(1,524,513)	(7,450,355)
Interest and dividends	4,919,277	697,287	5,616,564
Less investment expense	(1,875,181)	(47,727)	(1,922,908)
Total investment income	(2,881,746)	(874,953)	(3,756,699)
Other revenue	60,851	-	60,851
Total additions	2,235,996	1,662,724	3,898,720
Deductions			
Benefit payments	11,493,030	-	11,493,030
Retiree healthcare premium payments	-	1,396,843	1,396,843
Administrative expenses	164,455	119,348	283,803
Pension expense	3,470	-	3,470
Refunds of contributions	232,330	-	232,330
Total deductions	11,893,285	1,516,191	13,409,476
Change in net assets	(9,657,289)	146,533	(9,510,756)
Net assets, beginning of year	235,379,262	27,566,689	262,945,951
Net assets, end of year	\$ 225,721,973	\$ 27,713,222	\$ 253,435,195

13. SELF-INSURANCE

The County is self-funded for risks associated with workers' compensation, sickness and accident insurance (short-term disability), unemployment compensation and healthcare. The self-insurance program for workers' compensation (except for the Bay County Medical Care Facility), short-term disability and unemployment is accounted for in the Self-Insurance Fund, an Internal Service fund. Contributions are paid to the Self-Insurance Fund as a percentage of payroll, with the rates being determined by an independent actuary. The Bay County Medical Care Facility participates in its own, stand-alone self-insured program for workers' compensation and healthcare benefits. The activity of this program is accounted for in the Medical Care Facility Enterprise Fund, with claims being paid as they are incurred. The County's self-insurance program for healthcare became effective January 1, 2001, and is accounted for in the Healthcare Self-Insurance Fund, an internal service fund. The contributions which are paid to the Healthcare Self-Insurance Fund are determined by an independent consultant.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

For the area of unemployment compensation, the County is categorized as a reimbursing employer in the State of Michigan. Employee sickness and accident benefit limits are established by way of contract negotiations with the County's eleven bargaining units and by the Board of Commissioners for the County's nonrepresented employees.

Specifically in the area of workers' compensation, the County purchases excess insurance to reduce its exposure to significant claim losses. Excess insurance allows recovery of a portion of the losses from the excess insurer, although it does not discharge the primary liability of the Self-Insurance fund as direct insurer of the risks. During 2008, Bay County purchased excess insurance from Citizens Insurance Company of America. The self-insured retention is \$400,000 per occurrence. The maximum limit of indemnity per occurrence is statutory. The employers' liability maximum limit of indemnity is \$1,000,000 per occurrence.

The County estimates the liability for claims that have been incurred through December 31, 2010, including both claims that have been reported as well as those that have not yet been reported and estimates of both future payments of losses and related claim adjustment expenses. Estimated liabilities for unpaid claims are based on historical claim payments, including related legal and administrative expenses. Neither the County nor the Bay Medical Care Facility has experienced settlements in excess of insurance coverage during the past three years.

General Liability

In 2011, the County was self-insured for general liability insurance coverage with Michigan Municipal Risk Management Authority ("MMRMA"). Bay County's contributions to this fund are determined each year by MMRMA based on its review of an application filed by the County, which identifies County assets such as property, vehicles, buildings, and equipment. Bay County's retention levels and policy coverage through MMRMA are as follows:

Coverage	Self Insured Retention (excess of deductible)
Liability	\$150,000
Vehicle Physical Damage \$1,000 deductible per vehicle	\$15,000 per vehicle \$30,000 per occurrence
Property and Crime \$1,000 deductible per occurrence	10% of the remaining up to \$100,000 of loss

Limits of Coverage

(including member's self-insured retention per occurrence)

The County's limits of liability coverage range from \$2,000 to \$10,000,000 per occurrence depending on type of occurrence. The County's limits of property and crime coverage range from \$10,000 to \$99,895,006 per occurrence depending on type of occurrence. In addition to the County's coverage from MMRMA, the combined members' have an aggregate \$5,000,000 terrorism liability coverage, \$300,000,000 of aggregate property coverage, a \$100,000,000 earthquake aggregate loss limit, a \$100,000,000 flood aggregate loss limit, and a \$50,000,000 terrorism per occurrence loss limit for all members.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

In the area of life insurance, the County is experienced rated and pays premiums to Hartford Insurance with whom the County has entered into a contractual agreement.

There have been no significant changes in insurance coverage in the past two years. There have been no claim settlements that have exceeded excess insurance limits.

Changes in the estimated claims liabilities for workers' compensation claims (excluding the Medical Care Facility) for the years ended December 31, 2011 and 2010, are as follows:

	12/31/2011	12/31/2010
Claims liability, beginning of year	\$ 484,943	\$ 298,628
Claims and damages incurred	(136,601)	549,976
Claims and payments	<u>(18,454)</u>	<u>(363,661)</u>
Claims liability, end of year	<u>\$ 329,888</u>	<u>\$ 484,943</u>

Changes in the estimated claims liabilities for workers' compensation claims of the Medical Care Facility for the years ended December 31, 2011 and 2010, are as follows:

	12/31/2011	12/31/2010
Claims liability, beginning of year	\$ 12,000	\$ 136,500
Claims and damages incurred	173,753	25,419
Claims and payments	<u>(89,275)</u>	<u>(149,919)</u>
Claims liability, end of year	<u>\$ 96,478</u>	<u>\$ 12,000</u>

Changes in the estimated claims liabilities for healthcare claims (excluding the Medical Care Facility) for the year ended December 31, 2011 and 2010, are as follows:

	12/31/2011	12/31/2010
Claims liability, beginning of year	\$ 245,774	\$ 195,143
Claims and damages incurred	5,273,445	5,376,871
Claims and payments	<u>(5,094,410)</u>	<u>(5,326,240)</u>
Claims liability, end of year	<u>\$ 424,809</u>	<u>\$ 245,774</u>

BAY COUNTY, MICHIGAN

Notes To Financial Statements

The Facility is self-insured for healthcare claims. The Facility is covered by a stop-loss policy that covers individual claims over \$30,000. Changes in the estimated claims liabilities for healthcare claims of the Medical Care Facility for the year ended December 31, 2011 and 2010, are as follows:

	12/31/2011	12/31/2010
Claims liability, beginning of year	\$ 126,000	\$ 90,000
Claims and damages incurred	3,196,714	3,777,330
Claims and payments	<u>(3,103,213)</u>	<u>(3,741,330)</u>
Claims liability, end of year	<u>\$ 219,501</u>	<u>\$ 126,000</u>

General Liability - Road Commission Component Unit

The Road Commission joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability insurance. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan County Road Commission Self-Insurance Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for large claims. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

General Liability - Department of Water and Sewer Component Unit

The Department of Water and Sewer is self-insured for workers' compensation claims. This program is administered by an independent company which furnishes safety inspection, claims review, and claims processing services. The employers' liability maximum limit of indemnity per occurrence is \$1,000,000 and the self-insured retention per occurrence is \$400,000. Net cost for the year ended December 31, 2011, was \$11,961.

The Department of Water and Sewer is further insured for general, automobile, and errors or omissions claims as a member of the Michigan County Road Commission Self-Insurance Pool and is insured for liabilities up to a limit of \$10,500,000 per occurrence, subject to a \$1,000 deductible. Payments made for the year ended December 31, 2011, were \$48,815.

The Department of Water and Sewer is further insured as a member of the Michigan County Road Commission Self-Insurance Pool for building, contents, off-road equipment and licensed vehicles claims and is insured for the lessor of the scheduled value of property or the cost of repairs or replacement, subject to a \$500 deductible. Payments made for the year ended December 31, 2011, were \$75,844.

The Department of Water and Sewer became self-insured for healthcare claims effective February 1, 2006. Blue Cross Blue Shield of Michigan administers the claims and provides \$75,000 specific stop loss coverage in a combined contract with DWS and Bay County Road Commission. Payments made for the year ended December 31, 2011, were \$742,340.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

14. PROPERTY TAXES

The County property tax is levied each July 1st and December 1st through 2011 on the taxable valuation of property located in the County as of the preceding December 31. On July or December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the next September or February, respectively.

Although the County's 2011 ad valorem tax is levied and collectible by December 1, 2011, it is the County's policy for all governmental fund types (with the exception below) to recognize revenues from the current tax levy in the year when the proceeds of the levy are budgeted and made available for financing County operations.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax was being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to revenue sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy shifted over three years from winter to summer. The property tax shift was completed in 2006 and 100% of the general operating taxes were levied July 1 in 2009.

The taxable value of real and personal property for the December 1, 2010, levy totaled \$2,958,617,497. The taxable value of real and personal property for the July 1, 2011, levy totaled \$2,916,647,488. The tax levy for fiscal year 2011 operations was based on the following rates:

General operating	5.7257 mills
Mosquito control	.4500 mills
911 central dispatch	.7000 mills
County library	1.9953 mills
Senior citizens	.5000 mills
Historical society	.0952 mills

The County annually reimburses to the local taxing authorities in Bay County the face value of the real property taxes, which are returned to the County Treasurer on March 1 as delinquent.

BAY COUNTY, MICHIGAN

Notes To Financial Statements

15. FUND BALANCES - GOVERNMENTAL FUNDS

The County adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Mosquito Fund	911 Service Fund	Division on Aging Fund	Homeland Security Fund	Nonmajor Funds	Total
Nonspendable:							
Inventory	\$ 32,508	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,508
Interfund advance	50,000	-	-	-	-	-	50,000
Prepays	386,525	-	-	1,128	-	6,891	394,544
Total nonspendable	469,033	-	-	1,128	-	6,891	477,052
Restricted for:							
General county services	203,359	-	-	-	-	-	203,359
Mosquito control	-	100,834	-	-	-	-	100,834
911 services	-	-	2,804,381	-	-	-	2,804,381
Division on aging	-	-	-	30,275	-	-	30,275
Homeland security	-	-	-	-	8,801	-	8,801
Friend of the court	-	-	-	-	-	141,144	141,144
Health department	-	-	-	-	-	343,761	343,761
Gypsy moth control	-	-	-	-	-	291,053	291,053
Register of deeds	-	-	-	-	-	169,351	169,351
Drug law enforcement	-	-	-	-	-	9,766	9,766
Community corrections	-	-	-	-	-	52,114	52,114
Home rehabilitation	-	-	-	-	-	1,974,372	1,974,372
Veteran's trust	-	-	-	-	-	3,122	3,122
Building authority debt	-	-	-	-	-	21,233	21,233
Total restricted	203,359	100,834	2,804,381	30,275	8,801	3,005,916	6,153,566
Committed for:							
Sub. years budget	5,227,833	242,121	549,622	241,921	-	865,025	7,126,522
Assigned for:							
General county services	5,406,615	-	-	-	-	-	5,406,615
Local CFO training	-	-	-	-	-	47,033	47,033
Law library	-	-	-	-	-	11,366	11,366
Social welfare	-	-	-	-	-	132,108	132,108
Child care services	-	-	-	-	-	77,690	77,690
Child care social services	-	-	-	-	-	16,842	16,842
Soldiers' relief	-	-	-	-	-	26,945	26,945
Total assigned	5,406,615	-	-	-	-	311,984	5,718,599
Total fund balances, governmental funds	\$11,306,840	\$ 342,955	\$ 3,354,003	\$ 273,324	\$ 8,801	\$ 4,189,816	\$19,475,739

BAY COUNTY, MICHIGAN

Notes To Financial Statements

16. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of December 31, 2011, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Assets not being depreciated	\$ 2,291,188	\$ 290,451	\$ 51,678,035
Assets being depreciated, net	48,081,837	7,507,636	67,877,344
	<u>50,373,025</u>	<u>7,798,087</u>	<u>119,555,379</u>
Related debt:			
Bonds payable	15,400,000	-	5,085,113
Maintenance agreement payable	8,550	-	-
Notes payable	-	-	500,937
Premium on bonds payable	136,378	-	-
	<u>15,544,928</u>	<u>-</u>	<u>5,586,050</u>
Invested in capital assets, net of related debt	<u>\$ 34,828,097</u>	<u>\$ 7,798,087</u>	<u>\$ 113,969,329</u>

17. CONTINGENCIES AND PENDING LITIGATION

The County is a defendant in various lawsuits. It is the opinion of County management and its counsel that the outcome of these lawsuits now pending will not materially affect the operations or the financial position of the County.

Under the terms of certain Federal and State grants, periodic audits are required and certain costs may be questioned as not representing appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The County is currently involved in a monitoring review related to the Homeland Security grant by the Michigan Department of State Police, Emergency Management and Homeland Security Division Audit Unit.



REQUIRED SUPPLEMENTARY INFORMATION

BAY COUNTY, MICHIGAN

Required Supplementary Information Employees' Retirement System

Schedule of Funding Progress Employees' Retirement System Trust Fund

Actuarial Valuation Date December 31,	Actuarial Value of Assets (in Thousands)	Actuarial Liability (AAL) Entry Age (in Thousands)	Unfunded AAL (in Thousands)	Funded Ratio	Covered Payroll (in Thousands)	UAAAL as a Percentage of Covered Payroll
2005	\$ 230,242	\$ 181,305	\$ 48,937	127%	\$ 43,104	114%
2006	237,681	189,811	47,870	125%	42,024	114%
2007	253,492	200,933	52,559	126%	44,688	118%
2008	246,578	212,531	34,047	116%	46,483	73%
2009	243,272	221,408	21,864	110%	47,245	46%
2010	244,728	231,625	13,103	106%	47,090	28%

Schedule of Employer Contributions Employees' Retirement System Trust Fund

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2006	\$ 581,067	100%
2007	706,090	100%
2008	718,886	100%
2009	1,749,408	100%
2010	2,254,792	122%
2011	2,402,962	125%

The information presented in the supplemental schedule was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation (December 31, 2010) follows:

Actuarial cost method	Individual entry age normal cost
Amortization method	Level percent of payroll, opened periods
Remaining amortization method:	30 years for groups that are underfunded and 10 years for groups that are overfunded.
Asset valuation method	Market value with 5 year smoothing of gains and losses.
Actuarial assumptions:	
Investment rating return*	7.5 percent
Projected salary increases*	5.0 percent to 12.0 percent, dependent on member's age
Addition merit and longevity increases	0.16 percent to 14.3 percent, dependent on member's age
Cost-of-living adjustments	None

*Includes pay inflation at 4.0 percent

BAY COUNTY, MICHIGAN

Required Supplementary Information
Public Employee Health Care

Schedule of Funding Progress
Public Employee Health Care Trust Fund

Actuarial Valuation Date December 31,	Actuarial Value of Assets (in Thousands)	Actuarial Accrued Liability (AAL) Entry Age (in Thousands)	Unfunded AAL (in Thousands)	Funded Ratio	Covered Payroll (in Thousands)	UAAL as a Percentage of Covered Payroll
2007	\$ 8,034	\$ 19,452	\$ (11,418)	41%	N/A	N/A
2009	7,800	52,849	(45,049)	15%	N/A	N/A

Schedule of Employer Contributions
Public Employee Health Care Trust Fund

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2008	\$ 3,417,517	68%
2009	2,097,348	37%
2010	3,886,495	30%
2011	4,041,955	35%

The information presented in the supplemental schedule was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation (December 31, 2009) follows:

Actuarial cost method	Individual entry age normal cost
Amortization method	Level percent of payroll, opened periods
Remaining amortization method:	30 years
Asset valuation method	Market value with 5 year smoothing of gains and losses.
Actuarial assumptions:	
Investment rating return*	7.5 percent - actives 4.0 percent - retirees
Projected salary increases*	5.0 percent to 13.0 percent, dependent on years of service
Cost-of-living adjustments	None

*Includes pay inflation at 4.0 percent



OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue funds account for the proceeds of specific revenue resources that are restricted to expenditures for specific programs or projects

The *Friend of the Court Fund* is used to account for judgment fees and for the operation of this office of the Circuit Court.

The *Health Department / District Health Fund* is used to account for revenue received from the General Fund, State grants, and fees to provide health protection, maintenance, and improvement for the residents of Bay County.

The *Gypsy Moth Control Fund* is used to account for revenues received from property taxes and Federal and State grants for controlling gypsy moths.

The *Register of Deeds Automation Fund* is used to account for the collection of \$5.00 of the total fee collected for each recording, which is used to fund the upgrading of technology in the Register of Deeds' Office.

The *Local C.F.O. Training Fund* is used to account for the County's share of the inmate booking fees to be utilized for local correctional officers training programs.

The *Drug Law Enforcement Fund* is used to account for revenue received from drug enforcement forfeitures that is earmarked for drug law enforcement.

The *Law Library Fund* is used to account for revenue received from penal fines and the General Fund that is earmarked for maintaining a law library.

The *Community Corrections Fund* is used to account for revenue received from State grants that is earmarked for programs designed to divert criminal offenders from the Bay County Law Enforcement Center (Jail) and the State prison system.

The *Home Rehabilitation Fund* is used to account for Michigan Community Development Block Grant (CDBG) funds and Michigan State Housing Development Authority (MSHDA) funds provided to the County for the rehabilitation of owner-occupied, single-family residential units in the out-county area.

The *Revenue Sharing Reserve Fund* is used to account for collection and distribution of property taxes in accordance with Public Act 357 of 2004 which provides funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy over a course of three consecutive years. It is subject to the budgetary requirements of Act 2 of the Public Acts of 1968, as amended.

The *Social Welfare Fund* is used to account for revenues primarily received from the State by the County Social Services Department to administer various public assistance programs.

The *Social Services Protective Services Fund* is used to account for revenue received from donations to provide services for abused and neglected children.



NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (concluded)

The *Child Care Fund* is used to account for revenues received from the County's General Fund, Federal and State grants, private agencies, and individuals to provide care, guidance, and control of children coming under the jurisdiction of the Probate Court.

The *Child Care / Social Services Fund* is used to account for revenues received from the County's General Fund and the State to provide foster care to children under the jurisdiction of the Probate Court Juvenile Unit who do not qualify for the State Foster Care Program.

The *Soldiers' Relief Fund* is used to account for emergency assistance to eligible veterans.

The *Veterans' Trust Fund* is used to account for revenue received from the State to provide emergency assistance to Michigan veterans.

The *Historical Preservation Fund* is used to account for revenues received from property taxes to foster any activity or project which tends to advance the historical interests of the County.

CAPITAL PROJECT FUNDS

Capital Projects funds account for financial resources segregated for the acquisition of capital assets or construction of major capital projects not financed by proprietary funds.

The *Public Improvement Fund* is used to account for nontax revenues earmarked for statutory public improvements.

DEBT SERVICE FUNDS

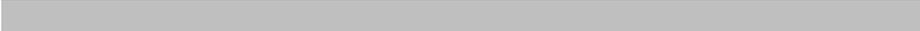
Debt Service funds accounts for the payment of principal and interest on long-term general obligation debt other than that payable from special assessments and debt issued for an services primarily by an enterprise

The *Building Authority Debt Fund* was established to accumulate resources to meet the annual debt service requirements of bonds issued for the construction of and improvements to the Bay County Law Enforcement Center.

BAY COUNTY, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2011

	Special Revenue Funds			
	Friend of the Court	Health Department / District Health	Gypsy Moth Control	Register of Deeds Automation
Assets				
Cash and cash equivalents	\$ 105,663	\$ 337,327	\$ 165,952	\$ 63,888
Investments	57,790	-	393,978	144,943
Accounts receivable, net of allowance	-	4,212	-	-
Property taxes receivable, net of allowance	-	-	367	-
Accrued interest receivable	-	-	6,584	2,456
Due from other governmental units	-	281,047	-	-
Prepays and other assets	-	-	-	744
Total assets	\$ 163,453	\$ 622,586	\$ 566,881	\$ 212,031
Liabilities				
Accounts payable	\$ 252	\$ 62,063	\$ 194	\$ 7,462
Accrued liabilities	3,362	64,291	2,077	-
Accrued vacation and sick pay	-	7,891	-	-
Due to other funds	86	1,918	56	-
Due to other governmental units	-	8,811	-	-
Long term advances	-	-	-	-
Deferred revenue	-	63,948	367	-
Total liabilities	3,700	208,922	2,694	7,462
Fund balances				
Nonspendable	-	-	-	744
Restricted	141,144	343,761	291,053	169,351
Committed	18,609	69,903	273,134	34,474
Assigned	-	-	-	-
Total fund balances	159,753	413,664	564,187	204,569
Total liabilities and fund balances	\$ 163,453	\$ 622,586	\$ 566,881	\$ 212,031



Special Revenue Funds				
Local C.F.O. Training	Drug Law Enforcement	Law Library	Community Corrections	Home Rehabilitation
\$ 62,695	\$ 37,818	\$ 34,617	\$ 48,900	\$ 133,717
-	-	-	-	-
1,364	-	-	-	1,915,541
-	-	-	-	-
-	-	-	39,214	58,829
-	-	-	-	6,147
<u>\$ 64,059</u>	<u>\$ 37,818</u>	<u>\$ 34,617</u>	<u>\$ 88,114</u>	<u>\$ 2,114,234</u>
\$ -	\$ -	\$ 2,421	\$ 6,109	\$ 7,690
-	-	-	2,451	-
-	-	-	-	-
-	-	-	60	-
-	-	-	-	20,153
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>2,421</u>	<u>8,620</u>	<u>27,843</u>
-	-	-	-	6,147
-	9,766	-	52,114	1,974,372
17,026	28,052	20,830	27,380	105,872
47,033	-	11,366	-	-
<u>64,059</u>	<u>37,818</u>	<u>32,196</u>	<u>79,494</u>	<u>2,086,391</u>
<u>\$ 64,059</u>	<u>\$ 37,818</u>	<u>\$ 34,617</u>	<u>\$ 88,114</u>	<u>\$ 2,114,234</u>

continued...

BAY COUNTY, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2011

	Special Revenue Funds			
	Revenue Sharing Reserve	Social Welfare	Social Services Protective Services	Child Care
Assets				
Cash and cash equivalents	\$ -	\$ 43,950	\$ -	\$ 50,496
Investments	-	98,822	-	-
Accounts receivable, net of allowance	-	-	-	-
Property taxes receivable, net of allowance	-	-	-	-
Accrued interest receivable	-	-	-	-
Due from other governmental units	-	18,336	-	368,485
Prepays and other assets	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 161,108</u>	<u>\$ -</u>	<u>\$ 418,981</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 39,427
Accrued liabilities	-	-	-	50,770
Accrued vacation and sick pay	-	-	-	2,340
Due to other funds	-	-	-	1,335
Due to other governmental units	-	-	-	(1,581)
Long term advances	-	29,000	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>29,000</u>	<u>-</u>	<u>92,291</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	249,000
Assigned	-	132,108	-	77,690
Total fund balances	<u>-</u>	<u>132,108</u>	<u>-</u>	<u>326,690</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 161,108</u>	<u>\$ -</u>	<u>\$ 418,981</u>

Special Revenue Funds				Capital Projects Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Child Care / Social Services	Soldiers' Relief	Veterans' Trust	Historical Preservation	Public Improvement	Building Authority	
\$ 16,192	\$ 38,365	\$ 3,135	\$ 10,805	\$ 5,832	\$ 5,434	\$ 1,164,786
-	-	-	-	14,707	12,855	723,095
-	-	-	-	-	-	1,921,117
-	271,288	-	259,035	-	-	530,690
-	-	-	-	206	2,944	12,190
650	-	-	-	-	-	766,561
-	-	-	-	-	-	6,891
<u>\$ 16,842</u>	<u>\$ 309,653</u>	<u>\$ 3,135</u>	<u>\$ 269,840</u>	<u>\$ 20,745</u>	<u>\$ 21,233</u>	<u>\$ 5,125,330</u>
\$ -	\$ 436	\$ 13	\$ -	\$ -	\$ -	\$ 126,067
-	-	-	353	-	-	123,304
-	-	-	-	-	-	10,231
-	-	-	-	-	-	3,455
-	-	-	-	-	-	27,383
-	-	-	-	-	-	29,000
-	282,272	-	269,487	-	-	616,074
-	282,708	13	269,840	-	-	935,514
-	-	-	-	-	-	6,891
-	-	3,122	-	-	21,233	3,005,916
-	-	-	-	20,745	-	865,025
16,842	26,945	-	-	-	-	311,984
<u>16,842</u>	<u>26,945</u>	<u>3,122</u>	<u>-</u>	<u>20,745</u>	<u>21,233</u>	<u>4,189,816</u>
<u>\$ 16,842</u>	<u>\$ 309,653</u>	<u>\$ 3,135</u>	<u>\$ 269,840</u>	<u>\$ 20,745</u>	<u>\$ 21,233</u>	<u>\$ 5,125,330</u>

concluded

BAY COUNTY, MICHIGAN

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds December 31, 2011

	Special Revenue Funds			
	Friend of the Court	Health Department / District Health	Gypsy Moth Control	Register of Deeds Automation
Revenues				
Property and other taxes	\$ -	\$ -	\$ (526)	\$ -
Licenses and permits	-	184,418	-	-
Federal grants	80,459	1,418,120	-	-
State grants	-	319,548	-	-
Interest, rents and royalties	-	3,500	17,010	6,196
Charges for services	45,473	79,912	-	-
Fines and forfeitures	-	-	-	-
Reimbursements, refunds, and other revenues	-	695,323	-	-
Total revenues	125,932	2,700,821	16,484	6,196
Expenditures				
Current:				
Judicial	121,735	-	-	-
General government	-	-	294,063	157,052
Public safety	-	-	-	-
Health and welfare	-	3,497,412	-	-
Community and economic development	-	-	-	-
Recreation and culture	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other fees	-	-	-	-
Total expenditures	121,735	3,497,412	294,063	157,052
Revenues over (under) expenditures	4,197	(796,591)	(277,579)	(150,856)
Other financing sources (uses)				
Transfers in	-	717,282	-	93,805
Transfers out	-	(292,872)	(17,219)	(17,521)
Total other financing sources (uses)	-	424,410	(17,219)	76,284
Net change in fund balances	4,197	(372,181)	(294,798)	(74,572)
Fund balances, beginning of year	155,556	785,845	858,985	279,141
Fund balances, end of year	\$ 159,753	\$ 413,664	\$ 564,187	\$ 204,569



Special Revenue Funds				
Local C.F.O. Training	Drug Law Enforcement	Law Library	Community Corrections	Home Rehabilitation
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	304,296
-	-	-	158,681	-
-	-	-	-	584
16,070	-	-	-	-
-	7,366	6,500	-	-
-	-	-	-	94,000
<u>16,070</u>	<u>7,366</u>	<u>6,500</u>	<u>158,681</u>	<u>398,880</u>
-	-	-	-	-
-	-	27,507	-	-
14,841	1,304	-	160,944	-
-	-	-	-	-
-	-	-	-	105,729
-	-	-	-	-
-	-	-	-	-
<u>14,841</u>	<u>1,304</u>	<u>27,507</u>	<u>160,944</u>	<u>105,729</u>
<u>1,229</u>	<u>6,062</u>	<u>(21,007)</u>	<u>(2,263)</u>	<u>293,151</u>
-	-	15,320	17,008	-
-	(8,612)	-	-	-
-	(8,612)	15,320	17,008	-
1,229	(2,550)	(5,687)	14,745	293,151
<u>62,830</u>	<u>40,368</u>	<u>37,883</u>	<u>64,749</u>	<u>1,793,240</u>
<u>\$ 64,059</u>	<u>\$ 37,818</u>	<u>\$ 32,196</u>	<u>\$ 79,494</u>	<u>\$ 2,086,391</u>

continued...

BAY COUNTY, MICHIGAN

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds December 31, 2011

	Special Revenue Funds			
	Revenue Sharing Reserve	Social Welfare	Social Services Protective Services	Child Care
Revenues				
Property and other taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Federal grants	-	-	-	18,846
State grants	-	-	-	63,661
Interest, rents and royalties	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Reimbursements, refunds, and other revenues	-	246,143	-	1,288,265
Total revenues	-	246,143	-	1,370,772
Expenditures				
Current:				
Judicial	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	232,567	-	2,208,676
Community and economic development	-	-	-	-
Recreation and culture	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other fees	-	-	-	-
Total expenditures	-	232,567	-	2,208,676
Revenues over (under) expenditures	-	13,576	-	(837,904)
Other financing sources (uses)				
Transfers in	-	-	-	886,290
Transfers out	-	-	-	(167,604)
Total other financing sources (uses)	-	-	-	718,686
Net change in fund balances	-	13,576	-	(119,218)
Fund balances, beginning of year	-	118,532	-	445,908
Fund balances, end of year	\$ -	\$ 132,108	\$ -	\$ 326,690

Special Revenue Funds				Capital Projects Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Child Care / Social Services	Soldiers' Relief	Veterans' Trust	Historical Preservation	Public Improvement	Building Authority	
\$ -	\$ -	\$ -	\$ 275,442	\$ -	\$ -	\$ 274,916
-	-	-	-	-	-	184,418
-	-	-	-	-	-	1,821,721
-	-	-	-	-	-	541,890
-	-	-	5	514	10,094	37,903
-	-	-	-	-	-	141,455
-	-	-	-	-	-	13,866
2,850	-	34,611	-	-	1,453,653	3,814,845
2,850	-	34,611	275,447	514	1,463,747	6,831,014
-	-	-	-	-	-	121,735
-	-	-	-	-	-	478,622
-	-	-	-	-	-	177,089
6,200	57,715	32,290	-	-	-	6,034,860
-	-	-	-	-	-	105,729
-	-	-	275,447	-	-	275,447
-	-	-	-	-	1,710,000	1,710,000
-	-	-	-	-	776,127	776,127
6,200	57,715	32,290	275,447	-	2,486,127	9,679,609
(3,350)	(57,715)	2,321	-	514	(1,022,380)	(2,848,595)
4,950	60,400	-	-	-	1,024,056	2,819,111
-	-	-	-	-	-	(503,828)
4,950	60,400	-	-	-	1,024,056	2,315,283
1,600	2,685	2,321	-	514	1,676	(533,312)
15,242	24,260	801	-	20,231	19,557	4,723,128
\$ 16,842	\$ 26,945	\$ 3,122	\$ -	\$ 20,745	\$ 21,233	\$ 4,189,816

concluded

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Friend of the Court

For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal grants	\$ 57,500	\$ 57,500	\$ 80,459	\$ 22,959
Charges for services	43,500	43,500	45,473	1,973
Total revenues	<u>101,000</u>	<u>101,000</u>	<u>125,932</u>	<u>24,932</u>
Expenditures				
Judicial	<u>123,943</u>	<u>123,943</u>	<u>121,735</u>	<u>(2,208)</u>
Net change in fund balances	(22,943)	(22,943)	4,197	27,140
Fund balances, beginning of year	<u>155,556</u>	<u>155,556</u>	<u>155,556</u>	<u>-</u>
Fund balances, end of year	<u>\$ 132,613</u>	<u>\$ 132,613</u>	<u>\$ 159,753</u>	<u>\$ 27,140</u>

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Health Department/District Health For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Licenses and permits	\$ 183,900	\$ 183,900	\$ 184,418	\$ 518
Federal grants	1,236,794	1,786,187	1,418,120	(368,067)
State grants	339,137	354,058	319,548	(34,510)
Interest, rents and royalties	1,000	1,000	3,500	2,500
Charges for services	97,200	97,200	79,912	(17,288)
Reimbursements, refunds, and other revenues	526,541	581,081	695,323	114,242
Total revenues	2,384,572	3,003,426	2,700,821	(302,605)
Expenditures				
Health and welfare	3,684,695	4,327,057	3,497,412	(829,645)
Revenues over (under) expenditures	(1,300,123)	(1,323,631)	(796,591)	527,040
Other financing sources (uses)				
Transfers in	1,489,003	871,796	717,282	(154,514)
Transfers out	(292,872)	(292,872)	(292,872)	-
Total other financing sources (uses)	1,196,131	578,924	424,410	(154,514)
Net change in fund balances	(103,992)	(744,707)	(372,181)	372,526
Fund balances, beginning of year	785,845	785,845	785,845	-
Fund balances, end of year	\$ 681,853	\$ 41,138	\$ 413,664	\$ 372,526

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Gypsy Moth Control For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property and other taxes	\$ 285,358	\$ -	\$ (526)	\$ (526)
Interest, rents and royalties	14,400	14,400	17,010	2,610
Total revenues	<u>299,758</u>	<u>14,400</u>	<u>16,484</u>	<u>2,084</u>
Expenditures				
General government	<u>359,675</u>	<u>359,675</u>	<u>294,063</u>	<u>(65,612)</u>
Revenues over (under) expenditures	(59,917)	(345,275)	(277,579)	67,696
Other financing uses				
Transfers out	<u>(17,219)</u>	<u>(17,219)</u>	<u>(17,219)</u>	<u>-</u>
Net change in fund balances	(77,136)	(362,494)	(294,798)	67,696
Fund balanced, beginning of year	<u>858,985</u>	<u>858,985</u>	<u>858,985</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 781,849</u></u>	<u><u>\$ 496,491</u></u>	<u><u>\$ 564,187</u></u>	<u><u>\$ 67,696</u></u>

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Register of Deeds Automation For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest, rents and royalties	\$ 9,000	\$ 9,000	\$ 6,196	\$ (2,804)
Expenditures				
General government	78,758	203,238	157,052	(46,186)
Revenues over (under) expenditures	(69,758)	(194,238)	(150,856)	43,382
Other financing sources (uses)				
Transfers in	100,000	100,000	93,805	(6,195)
Transfers out	(17,521)	(17,521)	(17,521)	-
Total other financing sources (uses)	82,479	82,479	76,284	(6,195)
Net change in fund balances	12,721	(111,759)	(74,572)	37,187
Fund balances, beginning of year	279,141	279,141	279,141	-
Fund balances, end of year	\$ 291,862	\$ 167,382	\$ 204,569	\$ 37,187

BAY COUNTY, MICHIGAN

■ Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Local C.F.O. Training

For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Charges for services	\$ 18,000	\$ 18,000	\$ 16,070	\$ (1,930)
Expenditures				
Public safety	34,963	34,963	14,841	(20,122)
Net change in fund balances	(16,963)	(16,963)	1,229	18,192
Fund balances, beginning of year	62,830	62,830	62,830	-
Fund balances, end of year	\$ 45,867	\$ 45,867	\$ 64,059	\$ 18,192

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Law Library
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Fines and forfeitures	\$ 6,500	\$ 6,500	\$ 6,500	\$ -
Expenditures				
Judicial	21,820	21,820	27,507	5,687
Revenues under expenditures	(15,320)	(15,320)	(21,007)	(5,687)
Other financing sources				
Transfers in	15,320	15,320	15,320	-
Net change in fund balances	-	-	(5,687)	(5,687)
Fund balances, beginning of year	37,883	37,883	37,883	-
Fund balances, end of year	\$ 37,883	\$ 37,883	\$ 32,196	\$ (5,687)

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Community Corrections For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State grants	\$ 147,320	\$ 154,320	\$ 158,681	\$ 4,361
Expenditures				
Public safety	170,250	177,250	160,944	(16,306)
Revenues over (under) expenditures	(22,930)	(22,930)	(2,263)	20,667
Other financing sources				
Transfers in	21,511	21,511	17,008	(4,503)
Net change in fund balances	(1,419)	(1,419)	14,745	16,164
Fund balances, beginning of year	64,749	64,749	64,749	-
Fund balances, end of year	\$ 63,330	\$ 63,330	\$ 79,494	\$ 16,164

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Home Rehabilitation

For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal grants	\$ 150,000	\$ 264,859	\$ 304,296	\$ 39,437
Interest, rents and royalties	1,000	1,000	584	(416)
Charges for services	300	300	-	(300)
Reimbursements, refunds, and other revenues	-	94,000	94,000	-
Total revenues	<u>151,300</u>	<u>360,159</u>	<u>398,880</u>	<u>38,721</u>
Expenditures				
Community and economic development	<u>233,901</u>	<u>442,760</u>	<u>105,729</u>	<u>(337,031)</u>
Net change in fund balances	(82,601)	(82,601)	293,151	375,752
Fund balances, beginning of year	<u>1,793,240</u>	<u>1,793,240</u>	<u>1,793,240</u>	-
Fund balances, end of year	<u>\$ 1,710,639</u>	<u>\$ 1,710,639</u>	<u>\$ 2,086,391</u>	<u>\$ 375,752</u>

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Revenue Sharing Reserve

For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest, rents and royalties	\$ -	\$ -	\$ -	\$ -
Other financing uses				
Transfers out	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Social Welfare For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Reimbursements, refunds, and other revenues	\$ 634,353	\$ 634,353	\$ 246,143	\$ (388,210)
Expenditures				
Health and welfare	670,246	670,246	232,567	(437,679)
Revenues over (under) expenditures	(35,893)	(35,893)	13,576	49,469
Other financing sources				
Transfers in	15,093	15,093	-	(15,093)
Net change in fund balances	(20,800)	(20,800)	13,576	34,376
Fund balances, beginning of year	118,532	118,532	118,532	-
Fund balances, end of year	\$ 97,732	\$ 97,732	\$ 132,108	\$ 34,376

BAY COUNTY, MICHIGAN

■ Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Social Services Protective Services For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Reimbursements, refunds, and other revenues	\$ 500	\$ 500	\$ -	\$ (500)
Expenditures				
Health and welfare	500	500	-	(500)
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Child Care For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal grants	\$ 20,000	\$ 20,000	\$ 18,846	\$ (1,154)
State grants	19,582	42,914	63,661	20,747
Reimbursements, refunds, and other revenues	1,242,548	1,272,623	1,288,265	15,642
Total revenues	1,282,130	1,335,537	1,370,772	35,235
Expenditures				
Health and welfare	2,425,230	2,525,702	2,208,676	(317,026)
Revenues over (under) expenditures	(1,143,100)	(1,190,165)	(837,904)	352,261
Other financing sources (uses)				
Transfers in	1,188,969	1,170,133	886,290	(283,843)
Transfers out	(167,604)	(167,604)	(167,604)	-
Total other financing sources (uses)	1,021,365	1,002,529	718,686	(283,843)
Net change in fund balances	(121,735)	(187,636)	(119,218)	68,418
Fund balances, beginning of year	445,908	445,908	445,908	-
Fund balances, end of year	\$ 324,173	\$ 258,272	\$ 326,690	\$ 68,418

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Child Care/Social Services For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Reimbursements, refunds, and other revenues	\$ 900	\$ 900	\$ 2,850	\$ 1,950
Expenditures				
Health and welfare	7,500	7,500	6,200	(1,300)
Revenues over (under) expenditures	(6,600)	(6,600)	(3,350)	3,250
Other financing sources				
Transfers in	6,600	6,600	4,950	(1,650)
Net change in fund balances	-	-	1,600	1,600
Fund balances, beginning of year	15,242	15,242	15,242	-
Fund balances, end of year	\$ 15,242	\$ 15,242	\$ 16,842	\$ 1,600

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Soldiers' Relief For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Reimbursements, refunds and other revenues	\$ -	\$ -	\$ -	\$ -
Expenditures				
Health and welfare	60,400	80,400	57,715	(22,685)
Revenues over (under) expenditures	(60,400)	(80,400)	(57,715)	22,685
Other financing sources				
Transfers in	60,400	60,400	60,400	-
Net change in fund balances	-	(20,000)	2,685	22,685
Fund balances, beginning of year	24,260	24,260	24,260	-
Fund balances, end of year	<u>\$ 24,260</u>	<u>\$ 4,260</u>	<u>\$ 26,945</u>	<u>\$ 22,685</u>

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual -Veterans' Trust
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Reimbursements, refunds and other revenues	\$ 47,600	\$ 47,600	\$ 34,611	\$ (12,989)
Expenditures				
Health and welfare	47,600	47,600	32,290	(15,310)
Net change in fund balances	-	-	2,321	2,321
Fund balances, beginning of year	801	801	801	-
Fund balances, end of year	\$ 801	\$ 801	\$ 3,122	\$ 2,321

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual -Historical Preservation

For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property and other taxes	\$ 274,818	\$ 274,818	\$ 275,442	\$ 624
Interest, rents and royalties	25	25	5	(20)
Total revenues	274,843	274,843	275,447	604
Expenditures				
Recreation and culture	274,843	274,843	275,447	604
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -

BAY COUNTY, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual -Building Authority Debt Service Fund For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest, rents and royalties	\$ 12,000	\$ 12,000	\$ 10,094	\$ (1,906)
Reimbursements, refunds, and other revenues	1,441,653	1,441,653	1,453,653	12,000
Total revenues	<u>1,453,653</u>	<u>1,453,653</u>	<u>1,463,747</u>	<u>10,094</u>
Expenditures				
Debt service:				
Principal	1,710,000	1,710,000	1,710,000	-
Interest and other fees	776,428	776,428	776,127	(301)
Total expenditures	<u>2,486,428</u>	<u>2,486,428</u>	<u>2,486,127</u>	<u>(301)</u>
Revenues over (under) expenditures	<u>(1,032,775)</u>	<u>(1,032,775)</u>	<u>(1,022,380)</u>	<u>10,395</u>
Other financing sources				
Transfers in	1,024,580	1,024,580	1,024,056	(524)
Net change in fund balances	(8,195)	(8,195)	1,676	9,871
Fund balances, beginning of year	19,557	19,557	19,557	-
Fund balances, end of year	<u>\$ 11,362</u>	<u>\$ 11,362</u>	<u>\$ 21,233</u>	<u>\$ 9,871</u>

NONMAJOR ENTERPRISE FUNDS

Enterprise funds account for the operations and services provided for County residents which are financed primarily through user charges.

The *Golf Course Fund* was established to account for the operations of the County golf course. Revenues are primarily generated from user fees.

The *Delinquent Property Tax Foreclosure Fund* was established to account for various fees and costs related to the new delinquent tax reversion process.

The *Commissary Fund* was established to record the operations of commissary sales to inmates at the Bay County Law Enforcement Center. Costs are recovered through charges for items sold.

BAY COUNTY, MICHIGAN

Combining Statement of Net Assets Enterprise Funds December 31, 2011

	Golf Course	Delinquent Property Tax Foreclosure	Commissary	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 728	\$ 77,954	\$ 48,424	\$ 127,106
Investments	55,003	162,948	132,487	350,438
Accounts receivable, net of allowance	3,576	-	-	3,576
Accrued interest receivable	1,223	1,480	1,796	4,499
Inventories	47,157	-	-	47,157
Due from other funds	-	12,402	-	12,402
Due from component units	-	25,000	-	25,000
Due from other governmental units	20	-	-	20
Prepaid items and other assets	-	10,833	-	10,833
Total current assets	107,707	290,617	182,707	581,031
Noncurrent assets				
Net pension asset	9,992	-	-	9,992
Land	167,021	-	-	167,021
Land improvements	771,553	-	-	771,553
Buildings and improvements	406,224	-	-	406,224
Machinery and equipment	467,054	-	-	467,054
Office furniture and fixtures	18,312	143,130	-	161,442
Vehicles and other	15,050	-	-	15,050
Less accumulated depreciation	(1,304,420)	(87,543)	-	(1,391,963)
Total noncurrent assets	550,786	55,587	-	606,373
Total assets	658,493	346,204	182,707	1,187,404
Liabilities				
Current liabilities				
Accounts payable	3,195	8,531	-	11,726
Accrued liabilities	6,051	-	-	6,051
Accrued vacation and sick pay	2,915	-	-	2,915
Due to other funds	237	25,537	-	25,774
Due to other governmental units	98	-	56	154
Unearned revenue	11,342	-	-	11,342
Total current liabilities	23,838	34,068	56	57,962
Long-term liabilities:				
Accrued vacation and sick pay	21,760	-	-	21,760
Net OPEB obligation	29,640	-	-	29,640
Total long-term liabilities	51,400	-	-	51,400
Total liabilities	75,238	34,068	56	109,362
Net assets				
Investment in capital assets	540,794	55,587	-	596,381
Unrestricted	42,461	256,549	182,651	481,661
Total net assets	\$ 583,255	\$ 312,136	\$ 182,651	\$ 1,078,042

BAY COUNTY, MICHIGAN

Combining Statement of Revenue, Expenses and Changes in Fund Net Assets Enterprise Funds December 31, 2011

	Golf Course	Delinquent Property Tax Foreclosure	Commissary	Total
Operating revenues				
Charges for services	\$ 547,574	\$ 328,569	\$ 136,036	\$ 1,012,179
Reimbursements, refunds, and other revenue	3,532	10,975	9	14,516
Total operating revenues	551,106	339,544	136,045	1,026,695
Operating expenses				
Personal services	339,854	-	-	339,854
Supplies	79,205	-	-	79,205
Other services	221,565	169,595	106,029	497,189
Depreciation	52,967	21,875	-	74,842
Total operating expenses	693,591	191,470	106,029	991,090
Operating income (loss)	(142,485)	148,074	30,016	35,605
Nonoperating revenue				
Interest income	2,754	5,139	4,500	12,393
Income (loss) before transfers	(139,731)	153,213	34,516	47,998
Transfers				
Transfers out	-	(200,443)	(12,818)	(213,261)
Change in net assets	(139,731)	(47,230)	21,698	(165,263)
Net assets, beginning of year	722,986	359,366	160,953	1,243,305
Net assets, end of year	\$ 583,255	\$ 312,136	\$ 182,651	\$ 1,078,042

BAY COUNTY, MICHIGAN

Combining Statement of Cash Flows Enterprise Funds December 31, 2011

	Golf Course	Delinquent Property Tax Foreclosure	Commissary	Total
Cash flows from operating activities				
Cash received from customers	\$ 546,723	\$ 303,714	\$ 136,681	\$ 987,118
Interfund reimbursements	13	199	-	212
Cash payments to suppliers for goods and services	(312,121)	(159,980)	(106,029)	(578,130)
Cash payments to employees and related taxes and insurance	(332,547)	-	(81)	(332,628)
Other operating revenues	3,532	10,975	9	14,516
Net cash provided by (used in) operating activities	(94,400)	154,908	30,580	91,088
Cash flows from investing activities				
Purchases of investments	38,708	(19,888)	(20,050)	(1,230)
Interest on investments	2,754	5,139	4,500	12,393
Net cash provided (used) by investing activities	41,462	(14,749)	(15,550)	11,163
Net increase (decrease) in cash and cash equivalents	(52,938)	(60,284)	2,212	(111,010)
Cash and cash equivalents, beginning of year	53,666	138,238	46,212	238,116
Cash and cash equivalents, end of year	\$ 728	\$ 77,954	\$ 48,424	\$ 127,106
Cash flows from operating activities				
Operating (loss) income	\$ (142,485)	\$ 148,074	\$ 30,016	\$ 35,605
Adjustments to reconcile operating (loss) income to net cash provided by operating activities				
Depreciation	52,967	21,875	-	74,842
Changes in assets and liabilities:				
Accounts receivable	51	-	1,396	1,447
Accrued interest receivable	(186)	145	(751)	(792)
Inventories	(6,646)	-	-	(6,646)
Due from other funds	-	199	-	199
Due from component units	-	(25,000)	-	(25,000)
Due from other governmental units	33	-	-	33
Prepaid items and other assets	-	1,084	-	1,084
Net pension asset	(5,708)	-	-	(5,708)
Accounts payable	(4,705)	8,531	-	3,826
Accrued liabilities	751	-	-	751
Accrued vacation and sick pay	(93)	-	-	(93)
Due to other funds	13	-	-	13
Due to other governmental units	2	-	(81)	(79)
Unearned revenue	(749)	-	-	(749)
Net OPEB obligation	12,355	-	-	12,355
Net cash provided by operating activities	\$ (94,400)	\$ 154,908	\$ 30,580	\$ 91,088

INTERNAL SERVICES FUNDS

Internal Service funds account for the financing of goods or services provided to other funds, departments or agencies of the primary government and its component units or to other governmental units on a cost reimbursement basis.

The *Self Insurance Fund* was established by the County to provide its own insurance coverage to its departments or funds for workers' compensation, sickness and accident, and unemployment compensation. It is funded by charges to the various funds covered under the program, with all claims being paid from the fund.

The *Self Insurance Healthcare Fund* was established by the County to provide its own insurance coverage to its departments or funds for employee health care.

BAY COUNTY, MICHIGAN

Combining Statement of Net Assets Internal Service Funds December 31, 2011

	Self Insurance	Healthcare Self Insurance	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,222,933	\$ 2,347,737	\$ 3,570,670
Investments	1,028,910	-	1,028,910
Accounts receivable, net of allowance	2	258,983	258,985
Accrued interest receivable	14,385	-	14,385
Due from other funds	23,437	-	23,437
Due from component units	750	-	750
Due from other governmental units	314	-	314
Prepaid items and other assets	19,980	899,971	919,951
Total current assets	2,310,711	3,506,691	5,817,402
Noncurrent assets:			
Net pension asset	761	-	761
Total assets	2,311,472	3,506,691	5,818,163
Liabilities			
Current liabilities:			
Accounts payable	110	1,354	1,464
Accrued liabilities	128,933	-	128,933
Due to other funds	12	-	12
Claims, settlements, and judgments	329,888	424,809	754,697
Total current liabilities	458,943	426,163	885,106
Long-term liabilities:			
Accrued vacation and sick pay	1,561	-	1,561
Total liabilities	460,504	426,163	886,667
Net assets			
Restricted:			
Insurance claims	1,850,968	2,755,863	4,606,831
Restricted contributions	-	324,665	324,665
Total net assets	\$ 1,850,968	\$ 3,080,528	\$ 4,931,496

BAY COUNTY, MICHIGAN

Combining Statement of Revenue, Expenses and Changes in Fund Net Assets Internal Service Funds December 31, 2011

	Self Insurance	Healthcare Self Insurance	Total
Operating revenues			
Charges for services	\$ 575,845	\$ 6,993,914	\$ 7,569,759
Total operating revenues	575,845	6,993,914	7,569,759
Operating expenses			
Personal services	225,474	5,273,445	5,498,919
Supplies	24	10	34
Other services	59,495	672,247	731,742
Total operating expenses	284,993	5,945,702	6,230,695
Operating income	290,852	1,048,212	1,339,064
Nonoperating revenues			
Interest income	35,942	-	35,942
Net change in assets	326,794	1,048,212	1,375,006
Net assets, beginning of year	1,524,174	2,032,316	3,556,490
Net assets, end of year	\$ 1,850,968	\$ 3,080,528	\$ 4,931,496

BAY COUNTY, MICHIGAN

Combining Statement of Cash Flows Internal Service Funds December 31, 2011

	Self Insurance	Healthcare Self Insurance	Total
Cash flows from operating activities			
Cash received from interfund services provided	\$ 575,032	\$ 6,883,172	\$ 7,458,204
Interfund reimbursements	337	-	337
Cash payments to suppliers for goods and services	(76,969)	(1,400,052)	(1,477,021)
Cash payments to employees and related taxes and insurance	(350,046)	(5,095,472)	(5,445,518)
Net cash provided (used) by operating activities	148,354	387,648	536,002
Cash flows from investing activities			
Purchases of investments	(89,412)	-	(89,412)
Interest on investments	35,942	-	35,942
Cash used by investing activities	(53,470)	-	(53,470)
Net increase in cash and cash equivalents	94,884	387,648	482,532
Cash and cash equivalents, beginning of year	1,128,049	1,960,089	3,088,138
Cash and cash equivalents, end of year	\$ 1,222,933	\$ 2,347,737	\$ 3,570,670
Cash flows from operating activities			
Operating income	\$ 290,852	\$ 1,048,212	\$ 1,339,064
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Changes in assets and liabilities:			
Accounts receivable	30	(110,742)	(110,712)
Accrued interest receivable	(5,080)	-	(5,080)
Due from other funds	344	-	344
Due from component units	4,237	-	4,237
Due from other governmental units	53	-	53
Prepaid items and other assets	(10,704)	(719,327)	(730,031)
Net pension asset	(434)	-	(434)
Accounts payable	(6,746)	(8,468)	(15,214)
Accrued liabilities	30,753	(1,062)	29,691
Accrued vacation and sick pay	111	-	111
Due to other funds	(7)	-	(7)
Claims, settlements, and judgments	(155,055)	179,035	23,980
Net cash provided (used) by operating activities	\$ 148,354	\$ 387,648	\$ 536,002

FIDUCIARY FUNDS

Fiduciary funds account for assets held by the County in a trustee or agent capacity. Disbursements from these funds are contingent upon the trust agreement or applicable legislative enactment for each particular fund. The Bay County Fiduciary funds encompass three broad categories: Private-Purpose Trust, Pension and Other Benefits Trust, and Agency funds. Private-Purpose Trust funds result from the County's agreement to accept resources and spend them in ways specified by the donor. Pension and Other Benefits Trust funds account for contributions from the County. They also invest fund resources, and calculate and pay pensions and other benefits to retirees and beneficiaries. Agency funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and other funds.

The *Employees' Retirement System Fund* is used to account for the financial transactions of the Bay County Employees' Retirement System. The system is administered by the Retirement Board of Trustees, while the County acts as custodian for the System.

The *Public Employee Health Care Fund* is used to accumulate financial resources in order to provide medical benefits for retirees', their spouses and dependents.

The *General Agency Fund* is used to account for resources held by the County, which were received from various sources, and their subsequent disbursement to other parties.

The *Current Tax Collection Fund* is used to account for the collection of current property taxes and special assessments held by the County in a trustee capacity and the subsequent distribution to the appropriate local governmental unit or County fund.

The *Library Penal Fine Fund* is used to account for penal fines received by the District and Circuit courts and distributed to public libraries, as directed by the State Library Board and the County's Law Library Fund per State Act 286 of 1961.

The *Flexible Spending Plan Fund* is used to account for a portion of employee wages voluntarily set aside on a pre tax basis to cover unreimbursed medical expenses and/or dependent day care expenses. The County holds these funds in a trustee capacity and reimburses the participating employees for eligible expenses.

BAY COUNTY, MICHIGAN

Combining Statement of Plan Net Assets Pension and Other Employee Benefits Trust Funds December 31, 2011

	Employees' Retirement System	Public Employee Health Care	Total
Assets			
Investments at fair value:			
Equities	\$ 171,115,576	\$ 23,322,350	\$ 194,437,926
Fixed income	46,389,413	3,973,856	50,363,269
Money market	7,997,021	285,774	8,282,795
Other	277,897	-	277,897
Total investments	225,779,907	27,581,980	253,361,887
Receivables:			
Interest and dividends	690,705	68,355	759,060
Accounts	118,539	108,049	226,588
Total receivables	809,244	176,404	985,648
Other current assets:			
Prepaid items and other assets	105,379	-	105,379
Net pension asset	3,065	-	3,065
Due from other funds	132	-	132
Due from component units	49,035	-	49,035
Total other current assets	157,611	-	157,611
Total assets	226,746,762	27,758,384	254,505,146
Liabilities			
Accounts payable	421,097	491	421,588
Accrued liabilities	588,375	44,671	633,046
Accrued vacation and sick pay	6,244	-	6,244
Due to other funds	132	-	132
Net OPEB obligation	8,941	-	8,941
Total liabilities	1,024,789	45,162	1,069,951
Net assets			
Held in trust for pension and healthcare benefits	\$ 225,721,973	\$ 27,713,222	\$ 253,435,195

BAY COUNTY, MICHIGAN

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefits Trust Funds
December 31, 2011

	Employees' Retirement System	Public Employee Health Care	Total
Additions			
Contributions:			
Employer	\$ 3,011,323	\$ 1,140,834	\$ 4,152,157
Current premium contributions	-	1,396,843	1,396,843
Plan members	2,045,568	-	2,045,568
Total contributions	5,056,891	2,537,677	7,594,568
Investment income:			
Net appreciation in fair value of investments	(5,925,842)	(1,524,513)	(7,450,355)
Interest and dividends	4,919,277	697,287	5,616,564
Less investment expense	(1,875,181)	(47,727)	(1,922,908)
Net investments	(2,881,746)	(874,953)	(3,756,699)
Other revenue	60,851	-	60,851
Total additions	2,235,996	1,662,724	3,898,720
Deductions			
Benefits	11,493,030	-	11,493,030
Retiree healthcare premium payments	-	1,396,843	1,396,843
Administrative expenses	164,455	119,348	283,803
Pension expense	3,470	-	3,470
Refunds of contributions	232,330	-	232,330
Total deductions	11,893,285	1,516,191	13,409,476
Change in net assets	(9,657,289)	146,533	(9,510,756)
Net assets held in trust for pension and healthcare benefits			
Beginning of year	235,379,262	27,566,689	262,945,951
End of year	\$ 225,721,973	\$ 27,713,222	\$ 253,435,195

BAY COUNTY, MICHIGAN

Combing Statement of Assets and Liabilities

Agency Funds
December 31, 2011

	General Agency	Current Tax Collections	Library Penal Fine	Flexible Spending Plan	Total
Assets					
Cash and cash equivalents	\$ 4,197,269	\$ 8,865	\$ 26,286	\$ 46,682	\$ 4,279,102
Investments	5,218,728	380,711	-	-	5,599,439
Accounts receivable	361	-	-	-	361
Total assets	\$ 9,416,358	\$ 389,576	\$ 26,286	\$ 46,682	\$ 9,878,902
Liabilities					
Accounts payable	\$ 43,666	\$ 125,972	\$ -	\$ 23,514	\$ 193,152
Accrued liabilities	104,591	-	-	23,168	127,759
Due to component units	8,819,079	263,604	26,286	-	9,108,969
Due to other governmental units	285,066	-	-	-	285,066
Deposits	163,956	-	-	-	163,956
Total liabilities	\$ 9,416,358	\$ 389,576	\$ 26,286	\$ 46,682	\$ 9,878,902

BAY COUNTY, MICHIGAN

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended December 31, 2011

	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011
General Agency Fund				
Assets				
Cash and cash equivalents	\$ 4,140,447	\$ 37,838,433	\$ (37,781,611)	\$ 4,197,269
Investments	4,547,142	9,041,079	(8,369,493)	5,218,728
Accounts receivable	293	3,603	(3,535)	361
Total assets	\$ 8,687,882	\$ 46,883,115	\$ (46,154,639)	\$ 9,416,358
Liabilities				
Accounts payable	\$ 28,699	\$ 17,699,155	\$ (17,684,188)	\$ 43,666
Accrued liabilities	104,239	127,362	(127,010)	104,591
Due to other funds	-	-	-	-
Due to component units	8,184,815	11,586,711	(10,952,447)	8,819,079
Due to other governmental units	194,873	17,669,528	(17,579,335)	285,066
Deposits	163,780	27,396	(27,220)	163,956
Undistributed taxes	11,476	158,173	(169,649)	-
Total liabilities	\$ 8,687,882	\$ 47,268,325	\$ (46,539,849)	\$ 9,416,358
Current Tax Collection Fund				
Assets				
Cash and cash equivalents	\$ -	\$ 71,121,523	\$ (71,112,658)	\$ 8,865
Investments	337,437	380,711	(337,437)	380,711
Total assets	\$ 337,437	\$ 71,502,234	\$ (71,450,095)	\$ 389,576
Liabilities				
Accounts payable	\$ 129,389	\$ 26,075,302	\$ (26,078,719)	\$ 125,972
Due to component units	207,872	6,402,340	(6,346,608)	263,604
Undistributed taxes	176	28,659,383	(28,659,559)	-
Total liabilities	\$ 337,437	\$ 61,137,025	\$ (61,084,886)	\$ 389,576
Library Penal Fine				
Assets				
Cash and cash equivalents	\$ 44,510	\$ 297,014	\$ (315,238)	\$ 26,286
Liabilities				
Accounts payable	\$ -	\$ 315,238	\$ (315,238)	\$ -
Due to component units	44,510	252,504	(270,728)	26,286
Total liabilities	\$ 44,510	\$ 567,742	\$ (585,966)	\$ 26,286

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BAY COUNTY, MICHIGAN

Combining Statement of Changes in Assets and Liabilities Agency Funds For the Year Ended December 31, 2011

	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011
Flexible Spending Plan Fund				
Assets				
Cash and cash equivalents	\$ 47,174	\$ 100,246	\$ (100,738)	\$ 46,682
Liabilities				
Accounts payable	\$ 23,514	\$ -	\$ -	\$ 23,514
Accrued liabilities	23,660	100,246	(100,738)	23,168
Total liabilities	\$ 47,174	\$ 100,246	\$ (100,738)	\$ 46,682
Total - All Agency Funds				
Assets				
Cash and cash equivalents	\$ 4,232,131	\$ 109,357,216	\$ (109,310,245)	\$ 4,279,102
Investments	4,884,579	9,421,790	(8,706,930)	5,599,439
Accounts receivable	293	3,603	(3,535)	361
Total assets	\$ 9,117,003	\$ 118,782,609	\$ (118,020,710)	\$ 9,878,902
Liabilities				
Accounts payable	\$ 181,602	\$ 44,089,695	\$ (44,078,145)	\$ 193,152
Accrued liabilities	127,899	227,608	(227,748)	127,759
Due to component units	8,437,197	18,241,555	(17,569,783)	9,108,969
Due to other governmental units	194,873	17,669,528	(17,579,335)	285,066
Deposits	163,780	27,396	(27,220)	163,956
Undistributed taxes	11,652	28,817,556	(28,829,208)	-
Total liabilities	\$ 9,117,003	\$ 109,073,338	\$ (108,311,439)	\$ 9,878,902

concluded

COMPONENT UNITS

LIBRARY SYSTEM

The *Library System* was established to account for the operations of the Bay County Library System, a component unit of Bay County, which provides services and materials in a variety of formats to satisfy the educational, personal and professional interests of the community with funds primarily raised through local property taxes.

DRAIN COMMISSION

The *Drain Commission* was established to account for the operations of the Bay County Drain Commission, a component unit of Bay County, and is used to track the collections and expenditures related to construction and maintenance of drainage districts throughout the County.

BAY COUNTY, MICHIGAN

Statement of Net Assets and Balance Sheet Library System Component Unit December 31, 2011

	Library System	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Cash and cash equivalents	\$ 5,456,758	\$ -	\$ 5,456,758
Accounts receivable, net of allowance	11,443	-	11,443
Property taxes receivable, net of allowance	5,635,500	-	5,635,500
Accrued interest receivable	63,216	-	63,216
Due from primary government	32,778	-	32,778
Prepaid items and other assets	119,038	-	119,038
Total current assets	11,318,733	-	11,318,733
Capital assets:			
Land	-	107,487	107,487
Land improvements	-	103,946	103,946
Buildings and improvements	-	1,171,086	1,171,086
Machinery and equipment	-	135,361	135,361
Office furniture and fixtures	-	1,197,716	1,197,716
Books and audio/visual materials	-	2,812,457	2,812,457
Vehicles and other	-	182,770	182,770
Less accumulated depreciation	-	(3,061,236)	(3,061,236)
Total capital assets	-	2,649,587	2,649,587
Total assets	\$ 11,318,733	\$ 2,649,587	\$ 13,968,320
Liabilities			
Current liabilities:			
Accounts payable	\$ 86,396	-	86,396
Accrued liabilities	112,170	-	112,170
Deferred / unearned revenue	5,635,500	-	5,635,500
Total current liabilities	5,834,066	-	5,834,066
Noncurrent liabilities:			
Accrued vacation and sick pay, long term	-	186,986	186,986
Net OPEB obligation	-	96,674	96,674
Total noncurrent liabilities	-	283,660	283,660
Total liabilities	5,834,066	283,660	6,117,726
Fund balances			
Nonspendable	119,038	(119,038)	-
Restricted	1,811,630	(1,811,630)	-
Assigned			
Capital outlay	123,991	(123,991)	-
Restricted assets	19,226	(19,226)	-
Restricted contributions	712,450	(712,450)	-
Designated for projects and activities	2,698,332	(2,698,332)	-
Total fund balances	5,484,667	(5,484,667)	-
Total liabilities and fund balances	\$ 11,318,733		
Net assets			
Invested in capital assets		2,649,587	2,649,587
Unrestricted		5,201,007	5,201,007
Total net assets		\$ 7,850,594	\$ 7,850,594

BAY COUNTY, MICHIGAN

Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances Library System Component Unit For the Year Ended December 31, 2011

	Library System	Adjustments	Statement of Activities
Revenues			
Property and other taxes	\$ 5,777,339	\$ -	\$ 5,777,339
Federal grants	11,939	-	11,939
State grants	54,362	-	54,362
Interest income	156,983	-	156,983
Charges for services	409,654	-	409,654
Donations	61,345	-	61,345
Total revenues	<u>6,471,622</u>	<u>-</u>	<u>6,471,622</u>
Expenditures / expenses			
Current:			
Recreation and culture	4,975,792	(367,488)	4,608,304
Depreciation	-	567,553	567,553
Contributions to other units	1,453,652	-	1,453,652
Total expenditures / expenses	<u>6,429,444</u>	<u>200,065</u>	<u>6,629,509</u>
Net change in fund balance / net assets	42,178	(200,065)	(157,887)
Fund balance / net assets, beginning of year	<u>5,442,489</u>	<u>2,565,992</u>	<u>8,008,481</u>
Fund balance / net assets, end of year	<u>\$ 5,484,667</u>	<u>\$ 2,365,927</u>	<u>\$ 7,850,594</u>

BAY COUNTY, MICHIGAN

Statement of Net Assets and Balance Sheet Drain Commission Component Unit December 31, 2011

	Drain Debt Service Funds	Drains Operations and Maintenance	Drain Capital Projects Fund
Assets			
Cash and cash equivalents	\$ 79,299	\$ 136,860	\$ 593,851
Investments	99,478	224,155	1,356,450
Special assessments	734,307	-	63,508
Accrued interest receivable	1,620	3,256	19,779
Due from other funds	-	25,641	25,642
Due from primary government	52,552	40,953	29,722
Due from other governmental units	31,730	264,828	14,109
Prepaid items and other assets	30	3,632	-
Capital assets not being depreciated	-	-	-
Capital assets being depreciated, net	-	-	-
Total assets	\$ 999,016	\$ 699,325	\$ 2,103,061
Liabilities			
Accounts payable	\$ -	\$ 8,672	\$ 14,517
Accrued liabilities	-	2,700	-
Due to other funds	-	468	182,652
Due to primary governments	-	20,987	14,302
Deferred / unearned revenue	863,878	316,925	96,300
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	-	-
Total liabilities	863,878	349,752	307,771
Fund balances			
Nonspendable	30	3,632	-
Assigned:			
Designated for projects and activities	-	-	-
Unassigned	135,108	345,941	1,795,290
Total fund balances	135,138	349,573	1,795,290
Total liabilities and fund balances	\$ 999,016	\$ 699,325	\$ 2,103,061
Net assets			
Invested in capital assets, net of related debt			
Restricted for:			
Debt service			
Unrestricted			
Total net assets			

Revolving Drain	Auburn Road Drain	Total Governmental Funds	Adjustments	Statement of Net Assets
\$ -	\$ 35,105	\$ 845,115	\$ -	\$ 845,115
-	73,019	1,753,102	-	1,753,102
-	64,101	861,916	-	861,916
-	2,755	27,410	-	27,410
131,837	-	183,120	(183,120)	-
-	1,204	124,431	-	124,431
-	-	310,667	-	310,667
-	-	3,662	-	3,662
-	-	-	340,673	340,673
-	-	-	3,479,735	3,479,735
<u>\$ 131,837</u>	<u>\$ 176,184</u>	<u>\$ 4,109,423</u>	<u>\$ 3,637,288</u>	<u>\$ 7,746,711</u>
\$ -	\$ -	\$ 23,189	-	23,189
-	-	2,700	13,466	16,166
-	-	183,120	(183,120)	-
131,837	-	167,126	-	167,126
-	100,959	1,378,062	(1,378,062)	-
-	-	-	242,409	242,409
-	-	-	536,792	536,792
<u>131,837</u>	<u>100,959</u>	<u>1,754,197</u>	<u>(768,515)</u>	<u>985,682</u>
-	-	3,662	(3,662)	-
-	-	-	-	-
-	75,225	2,351,564	(2,351,564)	-
-	75,225	2,355,226	(2,355,226)	-
<u>\$ 131,837</u>	<u>\$ 176,184</u>	<u>\$ 4,109,423</u>		
			3,041,207	3,041,207
			210,363	210,363
			<u>3,509,459</u>	<u>3,509,459</u>
			<u>\$ 6,761,029</u>	<u>\$ 6,761,029</u>

BAY COUNTY, MICHIGAN

Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances - Drain Commission Component Unit For the Year Ended December 31, 2011

	Drain Debt Service Funds	Drains Operations and Maintenance	Drain Capital Projects Fund
Revenues			
Property and other taxes	\$ 252,205	\$ 10,774	\$ 79,631
Federal grants	-	-	6,296
Lincenses and permits	-	200	9,100
Interest, rents and royalties	4,287	22,954	73,405
Reimbursements, refunds and other revenue	21,069	40,578	23,709
Contributions from local units	35,790	258,073	14,563
Total revenues	313,351	332,579	206,704
Expenditures / expenses			
Public works:			
Contractual services	-	250,471	352,473
Depreciation	-	-	-
Debt service:			
Principal	265,776	27,008	-
Interest and fiscal charges	40,890	1,119	-
Total expenditures / expenses	306,666	278,598	352,473
Revenues over (under) expenditures / expenses	6,685	53,981	(145,769)
Other financing sources (uses)			
Transfers in	-	-	124,531
Transfers out	(55,680)	(26,345)	(42,506)
Total other financing sources (uses)	(55,680)	(26,345)	82,025
Net change in fund balances	(48,995)	27,636	(63,744)
Fund balances / net assets, beginning of year	184,133	321,937	1,859,034
Fund balances / net assets, end of year	\$ 135,138	\$ 349,573	\$ 1,795,290

Revolving Drain	Auburn Road Drain	Total Governmental Funds	Adjustments	Statement of Net Assets
\$ -	\$ 53,517	\$ 396,127	\$ (360,635)	\$ 35,492
-	-	6,296	-	6,296
-	-	9,300	-	9,300
-	6,733	107,379	-	107,379
-	-	85,356	-	85,356
-	-	308,426	-	308,426
-	60,250	912,884	(360,635)	552,249
-	-	602,944	(132,310)	470,634
-	-	-	172,162	172,162
-	250,000	542,784	(542,784)	-
-	15,767	57,776	(6,463)	51,313
-	265,767	1,203,504	(509,395)	694,109
-	(205,517)	(290,620)	148,760	(141,860)
-	-	124,531	-	124,531
-	-	(124,531)	-	(124,531)
-	-	-	-	-
-	(205,517)	(290,620)	148,760	(141,860)
-	280,742	2,645,846	4,257,043	6,902,889
\$ -	\$ 75,225	\$ 2,355,226	\$ 4,405,803	\$ 6,761,029

