



SAGINAW COUNTY ROAD COMMISSION
Saginaw, Michigan

FINANCIAL STATEMENTS
December 31, 2017



**Gardner | Provenzano
Thomas & Luplow**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 20, 2018

Members of the Board
of County Road Commissioners of Saginaw County
Saginaw, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Saginaw County Road Commission, a component unit of Saginaw County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Saginaw County Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Saginaw County Road Commission as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018 on our consideration of the Saginaw County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Saginaw County Road Commission's internal control over financial reporting and compliance.

Gardner, Proromyne, Thomas & Luplow, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017

INTRODUCTION

The Saginaw County Road Commission (SCRC), a component unit of Saginaw County, is a special purpose government engaged in a single government program of road and bridge maintenance and construction in the County of Saginaw, Michigan. Our discussion and analysis of the Saginaw County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2017. The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements. The modified accrual method of accounting focuses on current available resources and is referred to as governmental fund level accounting. The full accrual method of accounting focuses on the entity as a whole and is referred to as government-wide level accounting. For SCRC, the most significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and infrastructure (roads, bridges, and signals) and long-term debt. Capital assets, infrastructure and long-term debt are not recognized as assets or liabilities at the governmental fund level.

As allowed for single purpose governments, the Statements of Net Position and the Statement of Activities, the fund level financial statements and the government-wide financial statements have been combined and are presented on the same page.

The audited financial activities of SCRC are presented herein. These statements include the following:

- Statement of Net Position and Governmental Fund Balance Sheet,
- Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017

GOVERNMENT-WIDE STATEMENTS

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

The Statement of Activities presents information showing how the Road Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The SCRC's financial statements are principally supported by the Michigan Transportation fund. The governmental activities of the Road Commission include providing construction, repair, maintenance and snow removal of roads within Saginaw County.

The government-wide financial statements include only the Road Commission itself (known as the Primary Government). The Road Commission has no legally separate component units for which the Road Commission is financially accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Saginaw County, which reports the Road Commission as a component unit.

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 Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Operating/Road Fund).

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, General Operating/Road 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 the General Operating/Road Fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the General Operating/Road fund 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 General Operating/Road Fund balance sheet and the General Operating/Road Fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the General Operating/Road Fund and the government-wide statements.

The Road Commission maintains one governmental fund (the "General Operating/Road Fund"). Information is presented in the General Operating/Road Fund balance sheet and in the General Operating/Road Fund statement of revenues, expenditures and changes in fund balances for the Road Commission. The General Operating/Road Fund is a major fund for financial reporting purposes as defined by GASB Statement No. 34

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017

CONDENSED FINANCIAL STATEMENTS

The following are condensed government-wide financial statements for SCRC.

Condensed Statement of Net Position

Assets and Deferred Outflows	2017	2016
Current	\$ 10,583,599	\$ 9,910,284
Long-term	165,479,762	164,614,459
Total Assets	<u>176,063,361</u>	<u>174,524,743</u>
Deferred Outflows of resources	<u>602,895</u>	<u>1,789,781</u>
Liabilities and Deferred Inflows		
Current	962,376	596,985
Long-term liabilities	22,582,778	21,108,792
Total Liabilities	<u>23,545,154</u>	<u>21,705,777</u>
Deferred Inflows of resources	<u>471,841</u>	<u>124,155</u>
Net Position		
Restricted for County Roads	(10,604,008)	(7,982,419)
Net invested in capital assets	163,253,269	162,467,011
Total Net Position	<u>\$ 152,649,261</u>	<u>\$ 154,484,592</u>

Condensed Statement of Activities

Revenue	2017	2016
Federal and State Revenue	\$ 19,783,899	\$ 19,090,614
Contributions from Local units	2,785,330	3,157,001
Other, including charges for services	1,294,903	315,486
Total Revenue	<u>23,864,132</u>	<u>22,563,101</u>
Expenses		
Primary preventive/routine maintenance	5,657,099	4,625,718
Local preventive/routine maintenance	7,196,277	7,597,318
Depreciation	8,897,542	8,809,228
Administrative	835,537	794,352
Other	3,113,008	3,048,330
Total Expenses	<u>25,699,463</u>	<u>24,874,946</u>
Change In Net Position	<u>\$ (1,835,331)</u>	<u>\$ (2,311,845)</u>

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017

NET POSITION

The restricted net position has constraints placed on the balance either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The total net position decreased by \$1,835,331 during the year ending December 31, 2017. Restricted for county roads decreased \$2,621,589 while net investment in capital assets increased \$786,258. The restricted for county roads for both fiscal years 2017 and 2016 is in a negative position due to pension and OPEB related expenses.

Revenue increased by \$1,301,031 from 2016. Though increases and decreases were in many different categories, the most significant increase was in federal and state revenue due to various funding disbursements. In addition, other revenue, including charges for services, increased significantly.

Expenses increased by \$824,517 from 2016. The most significant increase was in primary prevention/routine maintenance.

THE ROAD COMMISSION'S FUND

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

During the year ending December 31, 2017, the general fund balance increased by \$293,611 or 3% of the beginning general fund balance. We had planned for an decrease in fund balance in the amount of \$218,574. Management does not believe the overall variance of \$512,185 is significant.

Management believes that the general fund balance provides sufficient working capital to support future operations of the Saginaw County Road Commission.

BUDGET

The Saginaw County Road Commission budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the general fund.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017

ORIGINAL BUDGET VERSUS AMENDED BUDGET

The 2017 budget was adopted in December 2016. The budget is reviewed periodically and amended as information becomes available or management's plans change.

Significant variances between the original budget and amended budget are as follows:

- Federal revenue decreased by \$1,567,468 due to Steel road bridge and Hart road projects postponed until 2018.
- State revenue increased by \$1,030,000. This was the first year of increased funding. When the original budget was passed, there was not a good estimate of how much funding would be generated.
- Preservation/structural improvements was decreased \$1,794,242 due to the two projects mentioned above postponed until 2018.
- Preventive/routine maintenance increased by \$1,371,424, due to Township work request greater than the original budget.

AMENDED BUDGET VERSUS ACTUAL

The significant variances from amended to actual are noted as follows:

- State revenue actual results were higher than the final budget due to conservative budgeting. The State is two months behind in forwarding MTF funds. The final budget is the best guess at the time of the amendment.
- Preventive/routine maintenance was more than the budget by \$1,126,906. Most of the variance was due to many light snowfalls that required extra equipment and labor hours.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017

CAPITAL ASSETS

SCRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$165,199,673, which is an increase of \$844,252. This information, which includes infrastructure, is summarized below.

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 40,223,566	\$ 39,708,858
Buildings and improvements	4,018,245	3,583,348
Road equipment	17,593,401	17,223,483
Other equipment	807,961	871,435
Infrastructure assets	<u>303,493,406</u>	<u>295,567,598</u>
Total Capital Assets	366,136,579	356,954,722
Accumulated Depreciation	<u>(200,936,906)</u>	<u>(192,599,301)</u>
Net Capital Assets	<u><u>\$ 165,199,673</u></u>	<u><u>\$ 164,355,421</u></u>

Additional information regarding capital assets is located in the notes to the financial statements.

LONG-TERM DEBT

At year-end, the Saginaw County Road Commission's long-term debt consisted of compensated absences (accumulated sick and vacation pay) in the amount of \$669,338, a Michigan Transportation note in the amount of \$1,200,000, equipment leases in the amounts of \$76,299, \$94,467 and \$575,638, Net OPEB obligation of \$10,128,741 and Net Pension Liability of \$9,838,295. More details of SCRC long-term debt is presented in the notes to the financial statements.

OTHER

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on next year and beyond on the SCRC financial condition.

**CONTACTING THE SAGINAW COUNTY ROAD COMMISSION'S
MANAGEMENT**

This financial report is intended to provide our citizens and customers with a general overview of the Saginaw County Road Commission's finances and to show the Saginaw County Road Commission's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Director of Finance and Benefits at 3020 Sheridan Avenue, Saginaw, MI 48601.

BASIC FINANCIAL STATEMENTS

SAGINAW COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017

	General Fund	Adjustments	Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS			
Cash	\$ 215,370	\$ -	\$ 215,370
Investment	6,208,621	-	6,208,621
Accounts Receivable			
Michigan Transportation Department	2,718,033	-	2,718,033
Other receivables	571,548	-	571,548
Special assessments-current portion	59,912	-	59,912
Inventories			
Equipment materials and parts	127,373	-	127,373
Road materials	505,008	-	505,008
Prepays	177,734	-	177,734
Long-term assets			
Special assessments-due in more than one year	280,089	-	280,089
Capital assets, net of accumulated depreciation	-	165,199,673	165,199,673
Total Assets	<u>10,863,688</u>	<u>165,199,673</u>	<u>176,063,361</u>
Deferred outflows of resources	-	602,895	602,895
Total Assets and Deferred Outflows	<u>\$ 10,863,688</u>	<u>165,802,568</u>	<u>176,666,256</u>
LIABILITIES AND DEFERRED INFLOWS			
Accounts payable	\$ 340,850	-	340,850
Accrued liabilities	235,444	-	235,444
Other liabilities	386,082	-	386,082
Long-term liabilities			
Equipment leases	-	746,404	746,404
Michigan transportation note	-	1,200,000	1,200,000
Compensated absences	-	669,338	669,338
Net pension liability	-	9,838,295	9,838,295
Net OPEB obligation	-	10,128,741	10,128,741
Total Liabilities	<u>962,376</u>	<u>22,582,778</u>	<u>23,545,154</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable special assessments	340,001	(340,001)	-
Difference in experience related to net pension liability	-	471,841	471,841
Total deferred inflow of resources	<u>340,001</u>	<u>131,840</u>	<u>471,841</u>
Total liabilities and deferred inflows of resources	<u>1,302,377</u>	<u>22,714,618</u>	<u>24,016,995</u>
FUND BALANCE/NET POSITION			
Fund Balances:			
Nonspendable	810,115	(810,115)	-
Committed	428,900	(428,900)	-
Restricted for County Roads	8,322,296	(8,322,296)	-
Total Fund Balance	<u>9,561,311</u>	<u>(9,561,311)</u>	<u>-</u>
Total Liabilities, Deferred inflows of resources and Fund Balance	<u>\$ 10,863,688</u>		
Net Position:			
Invested in capital assets		163,253,269	163,253,269
Restricted for County Roads		(10,604,008)	(10,604,008)
Total Net Position		<u>\$ 152,649,261</u>	<u>\$ 152,649,261</u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
 RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
 NET POSITION OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2017

Total governmental fund balance	\$ 9,561,311
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	165,199,673
Long-term receivables are not deemed measurable and available and therefore not reported in the governmental fund.	340,001
Deferred outflows related to the net pension liability are not recognized at the fund level	602,895
Deferred inflows related to the net pension liability are not recognized at the fund level	(471,841)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.	<u>(22,582,778)</u>
Net Position of Governmental Activities	<u><u>\$ 152,649,261</u></u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Adjustments	Statement of Activities
Revenue			
Federal	\$ 2,082,353	\$ -	\$ 2,082,353
State	17,701,546	-	17,701,546
County			
City and Villages	110,470	-	110,470
Township	2,507,292	-	2,507,292
Other government	167,568	-	167,568
Interest	58,009	-	58,009
Charge for services	94,185	-	94,185
Gain on disposal	9,481	-	9,481
Other revenue	354,650	35,364	390,014
Private source contributions	743,214	-	743,214
Total Revenue	<u>23,828,768</u>	<u>35,364</u>	<u>23,864,132</u>
Expenditures/expense			
Primary construction/capacity improvements	746,796	(746,796)	-
Primary preservation/structural improvements	4,663,924	(4,663,924)	-
Primary preventive/routine maintenance	5,657,099	-	5,657,099
Local preservation/structural improvements	3,029,796	(3,029,796)	-
Local preventive/routine maintenance	7,196,277	-	7,196,277
Administrative	791,114	44,423	835,537
Net equipment expense	(190,166)	-	(190,166)
Net capital outlay			
Capital outlay	2,322,925	(2,322,925)	-
Depreciation credits	(1,021,629)	1,021,629	-
Debt service	559,605	(517,644)	41,961
Infrastructure Depreciation	-	8,897,542	8,897,542
Drain assessment	246,613	-	246,613
Other Non-road	108,441	-	108,441
Loss of disposals of capital assets		18	18
Pension related expense-deferred outflows	-	1,186,886	1,186,886
Pension related expense-deferred inflows	-	347,686	347,686
Pension NPO changes	-	(608,424)	(608,424)
OPEB benefits	-	1,979,993	1,979,993
Total Expenditures/expense	<u>24,110,795</u>	<u>1,588,668</u>	<u>25,699,463</u>
Change in Fund Balance Before Other Financing Sources	(282,027)	282,027	-
Other financing sources-capital lease	<u>575,638</u>	<u>(575,638)</u>	<u>-</u>
Net change in fund balance	293,611	(293,611)	-
Change in net position		(1,835,331)	(1,835,331)
Fund Balance- Beginning of Year	9,267,700	(9,267,700)	-
Net Position - Beginning of Year	-	154,484,592	154,484,592
Fund Balance/Net Position - End of Year	<u>\$ 9,561,311</u>	<u>\$ 143,087,950</u>	<u>\$ 152,649,261</u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2017

Net Change in fund balance--total governmental fund \$ 293,611

Amounts reported for governmental activities in the statement 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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirements are recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.

Capital outlay	10,763,441
Depreciation	(9,919,171)
Loss on disposal of capital assets	(18)

Some revenues reported in the statement of activities are not considered to be current resources and therefore are not reported as revenue in the governmental funds.

Long-term special assessment-new	117,882
Long-term special assessment-principal payments	(82,518)

Some expenses reported in the statement of activities, such as other post-employment benefits, do not required the use of current financial resources and therefore are not reported as expenditures in the governmental funds

Change in OPEB	(1,979,993)
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Expenses related to the net pension liability are not reported in the governmental funds	(926,148)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Principal payments on debt	517,644
Proceeds from capital lease	(575,638)
Compensated absences	(44,423)
Change in net position of governmental activities	<u>\$ (1,835,331)</u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Saginaw County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The more significant accounting policies established in GAAP and used by the Commission are discussed below.

A. Reporting Entity

The Commission, which is established pursuant to County Road Law (MCL 224.1), is governed by a five-member board of County Road Commissioners appointed by the Saginaw County Board of Commissioners. The Commission is a component unit of the Saginaw County and its financial statements are an integral part of the comprehensive annual financial report of the Saginaw County.

Based upon Government Accounting Standards, which establishes criteria for determining the reporting entity, these financial statements present the Saginaw County Road Commission, a discretely presented component unit of Saginaw County, and include the Commission's general operations fund.

The Commission's Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide Statements and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the activities of the Saginaw County Road Commission. There is only one fund reported in the government-wide financial statements.

This government-wide approach is focused more on the sustainability of the Commission as an entity and the change in the Commission's net position from the current year's activities.

The fund financial statements include the operating fund which is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Measurement Focus, Basis of Accounting, Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the SCRC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or soon thereafter. 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.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/
Fund Balance**

1. **Cash, Cash Equivalents and Investments**

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

2. **Inventories**

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

3. **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

4. Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are capitalized and depreciated according to State guidelines. Depreciation is computed on the sum-of-the-year's-digits methods for road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road equipment	5 – 8
Other equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the Commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

5. Liabilities

Accounts Payable

Accounts payable consist of items from which the Commission benefited during the current fiscal year but have not yet paid.

Accrued Expenses

Accrued expenses consist mainly of employee salaries, wages, and related payroll taxes.

Other Liabilities

Other liabilities consist of deposits, due to the State and various other amounts due at year end.

Compensated Absences

Consists of amounts due to employees for sick and vacation time.

Due to State of Michigan

Consists of amounts due to the State for the Commission's portion of projects.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

6. Fund Balance Classifications

The Road Commission classifies its fund balances as follows:

Nonspendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. For the Road Commission, the nonspendable balance reflects the inventory on hand and prepaids.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority. At December 31, 2017, \$428,900 was committed in the 2017 budget to spend down fund balance.

Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The remaining Road Commission funds are restricted as they can only be used in accordance with Public Act 51 of 1951.

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position/balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In the financial statements, the net difference in experience and the difference in pension assumptions, create deferred outflow of resources.

In addition to liabilities, the statement of financial position/balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission had two items that qualified for reporting in this category. The item unavailable special assessments is reported in the governmental funds balance sheet and the statement of net position. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, the SCRC recognizes a deferred inflow of resources for the difference in projected and actual earnings on pension plan investments.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

8. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

E. Budgets and Budgetary Accounting

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

- A budget is adopted by the Board of County Road Commissioners of Saginaw County prior to the start of each year. The budget includes proposed expenditures and a means of financing them.
- The Saginaw County Road Commission approved budget is then submitted to the Saginaw County Board of Commissioners.
- The budget is prepared by the Road Commission on a basis consistent with U.S. generally accepted accounting principles and revised as deemed necessary during the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented has been amended throughout the year.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

- The chief administrative officer is authorized to transfer up to 25% of a line item amount approved in the General Appropriations Act to another line item without prior approval, but subject to approval of the Board of County Road Commissioners at their next regular Board Meeting.

Law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget. Expenditures, which exceeded appropriations, are illustrated in required supplemental information.

NOTE 2--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

All special revenue fund investments are held in the name of the Saginaw County Treasurer; therefore, the insured amount of Road Commission investment is not determinable. Since the County has in excess of the \$250,000 limits, all Road Commission investments are presumed to be uninsured.

It is the policy of the SCRC to have investments made by the County Treasurer based on his/her judgment.

Interest Rate Risk

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to Fair Value losses arising from increasing interest rates.

Credit Risk

State laws limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 2--CASH AND INVESTMENTS (continued)

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Saginaw and would receive a proportional share of holdings.

Custodial Deposit Credit Risk

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The bank balance is categorized as follows:

	<u>Insured</u>	<u>Collateralized</u>	<u>Uninsured Uncollateralized</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$ 250,000	\$ -	\$ 246,090	\$ 496,090	\$ 214,988
Investment held by County	-	-	6,208,621	6,208,621	6,208,621
Cash on hand	-	-	382	-	382
Totals	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 6,455,093</u>	<u>\$ 6,704,711</u>	<u>\$ 6,423,991</u>

NOTE 3--UNEMPLOYMENT COMPENSATION

The Road Commission is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Road Commission must reimburse the Michigan Employment Security Commission for all benefits charged against the Road Commission. The amount of expenditures for unemployment for the year ended December 31, 2017 was \$0.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 4--CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the year are as follows:

Governmental Activities	Balance 12/31/2017	Adjustments Additions	Adjustments Retirements	Balance 12/31/2017
Capital Assets Not Being Depreciated				
Land	\$ 558,635	\$ -	\$ -	\$ 558,635
Land and improvements, infrastructure	39,150,223	514,708	-	39,664,931
Total Land and Improvements	<u>39,708,858</u>	<u>514,708</u>	<u>-</u>	<u>40,223,566</u>
Other Capital Assets				
Land Improvements	460,211	-	-	460,211
Depletable Assets	35,013	-	-	35,013
Buildings	3,088,124	590,458	155,561	3,523,021
Road equipment	17,223,483	1,603,004	1,233,086	17,593,401
Shop equipment	165,855	9,414	28,494	146,775
Engineers equipment	147,066	6,500	32,894	120,672
Yard and storage equipment	8,241	-	5,646	2,595
Office equipment	550,273	113,549	125,903	537,919
Infrastructure and improvements	295,567,598	7,925,808	-	303,493,406
Total Other Capital Assets	<u>317,245,864</u>	<u>10,248,733</u>	<u>1,581,584</u>	<u>325,913,013</u>
Total Capital Assets	<u>356,954,722</u>	<u>10,763,441</u>	<u>1,581,584</u>	<u>366,136,579</u>
Accumulated Depreciation				
Land Improvements	439,028	4,929	-	443,957
Depletable Assets	3,914	-	-	3,914
Buildings	2,103,214	92,374	155,561	2,040,027
Road equipment	15,335,169	887,873	1,233,067	14,989,975
Shop equipment	137,392	4,067	28,495	112,964
Engineers equipment	129,038	4,173	32,894	100,317
Yard and storage equipment	6,468	259	5,646	1,081
Office equipment	484,474	27,954	125,903	386,525
Infrastructure and improvements	173,960,604	8,897,542	-	182,858,146
Total Accumulated Depreciation	<u>192,599,301</u>	<u>9,919,171</u>	<u>1,581,566</u>	<u>200,936,906</u>
Total Net Capital Assets	<u>\$ 164,355,421</u>	<u>\$ 844,270</u>	<u>\$ 18</u>	<u>\$ 165,199,673</u>

NOTE 5--LONG-TERM LIABILITIES

Accrued Sick and Vacation

The Road Commission pays 65% of accrued unused sick leave at retirement. The amount due at December 31, 2017 is \$253,721. Additionally, up to twenty days vacation may be carried over to a succeeding year, subject to certain restrictions. Accumulated vacation payable at December 31, 2017 is \$415,617.

During the year ended December 31, 2015, the Road Commission issued Michigan Transportation notes in the amount of \$2,000,000. Interest payments ranging from \$4,400 to \$22,000 are due twice a year. Annual principal payments are due in the amount of \$400,000. Interest is set at 2.20%. The notes were issued to finance improvements to Miller Road, Wieneke Road and Shattuck Road in Saginaw County.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 5--LONG-TERM LIABILITIES (CONT.)

Equipment Leases

During the year ended December 31, 2014, the Road Commission entered into an equipment lease for an excavator. Five lease payments in the amount of \$75,004, including principal and interest, are due annually through 2018. Interest is set at 3%.

During the year ended December 31, 2015, the Road Commission entered into an equipment lease for a street sweeper. Five lease payments in the amount of \$49,524 including principal and interest are due annually through 2019. Interest is set at 3.17%.

During the year ended December 31, 2017, the Road Commission entered into an equipment lease for a motor grader and wheel loader. Seven lease payments in the amount of \$91,258 including principal and interest are due annually through 2024. Interest is set at 2.95%.

Following is a summary of long term liabilities for the year ended December 31, 2017:

	Balance 1/1/2017	Increase	Reduction	Balance 12/31/2017	Due Within One year
Compensated absences	\$ 624,915	\$ 63,214	\$ 18,791	\$ 669,338	\$ -
Equipment lease	148,906	-	72,607	76,299	76,299
Equipment lease	139,504	-	45,037	94,467	46,486
Equipment lease	-	575,638	-	575,638	80,456
Michigan Transportation Note	1,600,000	-	400,000	1,200,000	400,000
Total	<u>\$ 2,513,325</u>	<u>\$ 638,852</u>	<u>\$ 536,435</u>	<u>\$ 2,615,742</u>	<u>\$ 603,241</u>

Annual debt service requirements to maturity for the above obligations area as foll (66,453)

	Principal	Interest	Total
2018	\$ 603,241	\$ 40,240	\$ 643,481
2019	524,631	33,751	558,382
2020	478,911	20,623	499,534
2021	81,239	10,019	91,258
2022	83,636	7,622	91,258
2023-2024	174,745	7,770	182,515
Compensated absences	669,338	-	669,338
	<u>\$ 2,615,741</u>	<u>\$ 120,025</u>	<u>\$ 2,735,766</u>

NOTE 6-- DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

For the purpose of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Plan Description

The Road Commission's defined benefit pension plan provides certain retirement disability and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer plan, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1946 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report can be obtained by accessing the MERS website at www.mersofmich.com.

Employees Covered by the Benefit Term

At the December 31, 2016 measurement date the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	104
Inactive plan members entitled to but not yet receiving benefits	7
Active employees	<u>65</u>
Total employees covered by MERS	<u>176</u>

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

Benefits Provided

01-Union: Closed to New Hires,
linked to Division 15

	<u>2016 Valuation</u>
Benefit Multiple:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 Years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 12/22/1966)

11-Commissioners:

	<u>2016 Valuation</u>
Closed to New Hires	
Benefit Multiple:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 Years
Employee Contributions	4.00%
Act 88:	Yes (Adopted 12/22/1966)

13-Non-Union New Hires after 01/01/12

	<u>2016 Valuation</u>
Open Division, linked to Division 12	
Benefit Multiple:	1.50% (no max.)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 Years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 12/22/1966)

15-Union New Hires after 01/01/12

	<u>2016 Valuation</u>
Open Division, linked to Division 01	
Benefit Multiple:	1.50% (no max.)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 Years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 12/22/1966)

10-Managers: Closed to New Hires,
linked to Division 14

	<u>2016 Valuation</u>
Benefit Multiple:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	55/15 20 and out
Early Retirement (Reduced):	-
Final Average Compensation:	3 Years
COLA for Future Retirees:	2.50% (Non-Compound)
Employee Contributions	4.70%
Act 88:	Yes (Adopted 12/22/1966)

12-Non-Union: Closed to new hires
linked to Division 13,

	<u>2016 Valuation</u>
Benefit Multiple:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 Years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 12/22/1966)

14- Manager New Hires after 01/01/12

	<u>2016 Valuation</u>
Open Division, linked to Division 10	
Benefit Multiple:	1.50% (no max.)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 Years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 12/22/1966)

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

Contribution Requirements

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish rates to be paid by its covered employees.

The contribution rates as a percentage of payroll for employee contributions and the flat rate for employer contributions for the year ended December 31, 2017 were as follows:

Division	<u>Employee Contribution</u>	<u>Employer Contribution</u>
01-Union: Closed to New Hires,	4.70%	\$32,439 per month
10-Managers: Closed to New Hires	4.70%	\$18,920 per month
11-Commissioners: Closed to New Hires	4.00%	-
12-Non-Union: Closed to new hires	4.70%	\$6,931 per month
13-Non-Union New Hires after 01/01/12 Open	4.70%	2.32% of wages
14- Manager New Hires after 01/01/12 Open	4.70%	3.56% of wages
15-Union New Hires after 01/01/12 Open	4.70%	1.70% of wages

Net Pension Liability

The Road Commission's Net Pension Liability was measured as of December 31, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increase: 3.75% in the long-term

Investment rate of return: 7.75%, net of investment expense, including inflation

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions (continued)

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumptions would be consistent with a price inflation of 3% - 4%.

Mortality rates were based on the RP-2014 Group Annuity Mortality Table of 50% male and 50% female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at rates agreed upon for employees and the actuarially determined rate for employers. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

Net Pension Liability

Changes in the net pension liability during the year were as follows:

Changes in Net Pension Liability	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 32,580,367	\$ 22,133,648	\$ 10,446,719
Service cost	392,452	-	392,452
Interest	2,535,884	-	2,535,884
Employer contributions	-	719,886	(719,886)
Employee contributions	-	170,862	(170,862)
Net investment income	-	2,864,864	(2,864,864)
Benefit payments	(2,156,171)	(2,156,171)	-
Experience changes	205,475	-	205,475
Administrative expense	-	(45,461)	45,461
Other changes	(32,084)	-	(32,084)
Net changes	945,556	1,553,980	(608,424)
Balance at December 31, 2017	\$ 33,525,923	\$ 23,687,628	\$ 9,838,295

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

The following presents the Road Commission's net pension liability, calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease in Rate to (7.00%)	Current Discount Rate 8.00%	1% Increase in Rate to (9.00%)
Net Pension Liability	\$ 13,361,833	\$ 9,838,295	\$ 6,836,623

Note: The current discount rate shown for GASB 68 purposes is higher than MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

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

During the year the Road Commission recognized pension expense of \$1,645,974. At year-end, the Road Commission reported deferred outflows and inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 471,841
Difference in assumptions	528,020	-
Difference in experience	74,875	-
Total	\$ 602,895	\$ 471,841

The amount reported as deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments will be recognized as pension expense as follows:

Year Ending	Net Amount
December 31,	
2018	\$ 593,379
2019	127,467
2020	(360,471)
2021	(229,321)
Total	\$ 131,054

Payable to the Pension Plan

At December 31, 2017, there was a reported payable of \$74,510 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017.

NOTE 7--POST-EMPLOYMENT BENEFITS OTHER THAN PENSION

Plan Description

The Road Commission administers a single-employer defined benefit post employment benefit plan. The plan provides healthcare, dental and life insurance benefits in accordance with the Saginaw County Road commission's union contract Article 28, to all employees who retire from the SCRC and qualify for benefits under MERS. Coverage for non-union employees is provided upon the discretion of management. At the time of the last actuary report, as of December 31, 2015, the plan provided up to 100% of health insurance benefits depending on coverage elected by the employee.

The plan is administered by the Road Commission and can be amended at its discretion. At the time of the last actuary report, as of December 31, 2015, the membership of the plan was fifty-two active members and ninety-four retirees and beneficiaries receiving benefits. The SCRC has the authority to establish the funding policy for the plan, and to amend the obligations of both the Road Commission and members. Active members do not contribute to the plan prior to retirement. As of the date of the actuary report, the Road Commission had not made contributions to a Trust. The Road Commission has no obligation to make contributions in advance to a Trust when insurance premiums or claims are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

Funding Policy

The contribution requirements of plan members and the Road Commission are established and may be amended by the Board of County Road Commissioners.

Expenditures for postemployment benefits are recognized as the insurance premiums become due. During the year ended December 31, 2017, approximately \$878,962 for postemployment benefits was paid and recorded as expenditures in the general fund.

Annual OPEB Cost and Net Obligation

The annual post-employment benefit, other than pension, (OPEB) cost (expense) is calculated based upon the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 7--POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONT.)

Annual OPEB Cost and Net Obligation (continued)

The following table shows the components of the SCRC annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the Road Commission's OPEB obligation to the retiree plan:

	<u>2017</u>
Annual required contribution (ARC)	\$ 3,737,749
Interest on Net OPEB obligation	315,686
Less adjustments to ARC	<u>(1,194,480)</u>
Annual OPEB cost	2,858,955
Amounts contributed:	
Payments of current premiums	(878,962)
Advanced funding	<u>-</u>
Increase (decrease) in net OPEB obligation	1,979,993
OPEB obligation beginning of the year	<u>8,148,748</u>
OPEB obligation end of the year	<u><u>\$ 10,128,741</u></u>

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost (ARC)</u>	<u>Percentage of</u> <u>ARC Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2015	\$ 3,019,091	22%	\$ 6,141,676
12/31/2016	\$ 3,332,383	23%	\$ 8,148,748
12/31/2017	\$ 3,737,749	24%	\$ 10,128,741

The funding progress of the plan as of December 31, 2015, the date of the last actuary report, is as follows:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	22,518,466
Unfunded actuarial accrued liability (UAAL)	22,518,466
Funded ratio	0%

NOTE 7--POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONT.)

Methods and Assumptions

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 benefit costs between 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 values of assets, consistent with long-term perspectives of the calculations. The actuarial assumptions as provided in the December 31, 2015 actuarial report are as follows:

1. Discount rate – 4%.
2. Mortality rate – IRC 1.430(h) annuitant and non-annuitant. (sex-distinct)
3. Salary scale – 2.0% per year.
4. Utilization – 95% of eligible employees will elect medical coverage at retirement; 5% of eligible employees will opt-out of medical coverage in favor of monthly stipend; 100% of eligible employees are assumed to elect dental and life insurance coverage at retirement; actual coverage used for retired employees.

NOTE 8--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2017, the Federal aid received and expended by the Road Commission was \$2,045,480 for contracted projects and \$36,873 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Commission administers the grant and either performs the work or contracts it out. The Road Commission is subject to single audit requirements if they expended \$750,000 or more for negotiated projects.

NOTE 9--SUBSEQUENT EVENTS

The financial statements and related disclosure include evaluation of events up through and including June 20, 2018, which is the date the financial statements were available to be issued.

NOTE 10--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Road Commission participates in the Michigan County Road Commission Self Insurance Pool (MCRCSIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The Road Commission pays an annual premium to MCRCSIP for its general insurance coverage. The MCRCSIP is self-sustaining through member premiums.

The Road Commission participates in the County Road Association Self Insurance Fund (CRASIF) for its workers' compensation benefits. The CRASIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through premiums. In the event of unusually high claims, both MCRCSIP and the CRASIF have the authority to bill the member road commissions retroactively.

The Road Commission is self-insured for short term disability.

The Road Commission continues to carry commercial insurance for other risks of loss, including the Road Commission's bonds and accident insurance.

NOTE 11--LITIGATION

The Road Commission is a party to various legal proceedings, which normally occur in governmental operations for which the Road Commission carries commercial insurance.

REQUIRED SUPPLEMENTAL INFORMATION

SAGINAW COUNTY ROAD COMMISSION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Federal	\$ 3,925,468	\$ 2,358,000	\$ 2,082,353	\$ (275,647)
State	15,808,000	16,838,000	17,701,546	863,546
County				
City and Villages	-	-	110,470	110,470
Township	2,150,000	1,800,000	2,507,292	707,292
Other government	100,000	135,000	167,568	32,568
Interest	13,000	30,000	58,009	28,009
Charge for services	85,000	100,000	94,185	(5,815)
Gain on disposal of capital assets	-	9,500	9,481	(19)
Other revenue	116,000	346,387	354,650	8,263
Private source contributions	-	400	743,214	742,814
Total Revenue	<u>22,197,468</u>	<u>21,617,287</u>	<u>23,828,768</u>	<u>2,211,481</u>
Expenditures				
Construction/capacity improvements	-	3,989	746,796	(742,807)
Preservation/structural improvements	9,877,044	8,082,802	7,693,720	389,082
Preventive/routine maintenance	10,355,046	11,726,470	12,853,376	(1,126,906)
Administration	794,600	727,000	791,114	(64,114)
Capital Outlay-net	171,000	940,000	1,301,296	(361,296)
Equipment-net	687,284	50,654	(190,166)	240,820
Drain assessment	175,500	213,700	246,613	(32,913)
Other	54,821	106,384	108,441	(2,057)
Debt service	565,000	560,500	559,605	895
Total Expenditures	<u>22,680,295</u>	<u>22,411,499</u>	<u>24,110,795</u>	<u>(1,699,296)</u>
Change in fund balance before other financing sources	(482,827)	(794,212)	(282,027)	3,910,777
Capital lease	-	575,638	575,638	-
Net Change in Fund Balance	(482,827)	(218,574)	293,611	(512,185)
Fund Balance, Beginning of Year	9,267,700	9,267,700	9,267,700	-
Fund Balance, End of Period	<u>\$ 8,784,873</u>	<u>\$ 9,049,126</u>	<u>\$ 9,561,311</u>	<u>\$ (512,185)</u>

Saginaw County Road Commission
Schedules of Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years Ended December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2008* to 2014*</u>
Total pension liability				
Service cost	\$ 392,452	\$ 359,123	\$ 350,849	\$ -
Interest	2,535,884	2,448,649	2,327,034	-
Benefit payments	(2,156,171)	(2,095,826)	(2,116,662)	-
Benefit changes	-	(186,232)	-	-
Experience changes	205,475	1,584,059	-	-
Other changes	(32,084)	(78,355)	16,893	-
Net change in total pension liability	<u>945,556</u>	<u>2,031,418</u>	<u>578,114</u>	<u>-</u>
Total pension liability-beginning	<u>32,580,367</u>	<u>30,548,949</u>	<u>29,970,835</u>	<u>-</u>
Total pension liability-ending	<u>\$ 33,525,923</u>	<u>\$ 32,580,367</u>	<u>\$ 30,548,949</u>	<u>\$ -</u>
Plan fiduciary net position				
Contributions-employer	\$ 719,886	\$ 698,887	\$ 562,134	\$ -
Contributions-member	170,862	179,168	153,886	-
Net investment income (loss)	2,864,864	2,340,797	(328,425)	-
Benefits payments, including refunds	(2,156,171)	(2,095,826)	(2,116,662)	-
Administrative expense	(45,461)	(46,263)	(48,855)	-
Net change in fiduciary net position	<u>1,553,980</u>	<u>1,076,763</u>	<u>(1,777,922)</u>	<u>-</u>
Fiduciary net position-beginning	<u>22,133,648</u>	<u>21,056,885</u>	<u>22,834,807</u>	<u>-</u>
Fiduciary net position-ending	<u>23,687,628</u>	<u>22,133,648</u>	<u>21,056,885</u>	<u>-</u>
Net pension liability-ending	<u>\$ 9,838,295</u>	<u>\$ 10,446,719</u>	<u>\$ 9,492,064</u>	<u>\$ -</u>
Fiduciary net position as a percentage of the total				
pension liability	70.65%	67.94%	68.93%	-
Covered-employee payroll	\$ 3,527,538	\$ 3,220,617	\$ 3,141,991	\$ -
Net pension liability as a				
percentage of covered-employee payroll	279%	324%	302%	-

2008 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

ADDITIONAL SUPPLEMENTAL INFORMATION

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Revenues				
Federal				
Surface transportation program	\$ 1,906,532	\$ -	\$ -	\$ 1,906,532
Bridge	8,082	131,366	-	139,448
Other	36,373	-	-	36,373
Total Federal	<u>1,950,987</u>	<u>131,366</u>	<u>-</u>	<u>2,082,353</u>
State				
Engineering	6,564	3,436	-	10,000
Urban road	1,443,855	708,791	-	2,152,646
Allocation	10,053,810	5,263,362	-	15,317,172
Local bridge	28,481	24,631	-	53,112
Other	168,616	-	-	168,616
Total State	<u>11,701,326</u>	<u>6,000,220</u>	<u>-</u>	<u>17,701,546</u>
County				
City and villages	-	-	110,470	110,470
Township	-	2,507,292	-	2,507,292
Other government	-	-	167,568	167,568
Total County	<u>-</u>	<u>2,507,292</u>	<u>278,038</u>	<u>2,785,330</u>
Other				
Interest and rents	421	19,160	38,428	58,009
Special assessments	-	83,226	-	83,226
Charges for services	9,419	61,221	23,545	94,185
Gain (loss) equipment disposals	1,896	2,370	5,215	9,481
Sundry refunds	133,249	133,289	-	266,538
Contributions from private sources	-	743,214	-	743,214
Other	-	-	4,886	4,886
Other financing sources-lease	287,819	287,819	-	575,638
Total Other	<u>432,804</u>	<u>1,330,299</u>	<u>72,074</u>	<u>1,835,177</u>
Total Revenues	<u>\$ 14,085,117</u>	<u>\$ 9,969,177</u>	<u>\$ 350,112</u>	<u>\$ 24,404,406</u>

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Expenditures				
Construction/capacity improvements	\$ 4,002	\$ 742,794	\$ -	\$ 746,796
Preservation/structural improvements	4,663,924	3,029,796	-	7,693,720
Preventive/routine maintenance	5,657,099	7,196,277	-	12,853,376
Other				
Administration	383,597	407,517		791,114
Equipment	1,374,958	2,458,302	230,252	4,063,512
Less: equipment rental	(1,439,303)	(2,573,347)	(241,028)	(4,253,678)
Capital outlay	929,170	929,170	464,585	2,322,925
Less: depreciation credits and retirements	(204,326)	(255,407)	(561,896)	(1,021,629)
Debt principal	259,994	259,995	-	519,989
Interest	19,808	19,808	-	39,616
Drain assessment	52,193	194,420	-	246,613
Other	-	-	108,441	108,441
Total Other	<u>1,376,091</u>	<u>1,440,458</u>	<u>354</u>	<u>2,816,903</u>
Total Expenditures	<u>11,701,116</u>	<u>12,409,325</u>	<u>354</u>	<u>24,110,795</u>
Excess of revenue over (under) expenditures	2,384,001	(2,440,148)	349,758	293,611
Other financing sources (uses)				
Optional transfer	(2,000,000)	2,000,000	-	-
Fund Balance, Beginning	<u>67,233</u>	<u>3,061,114</u>	<u>6,139,353</u>	<u>9,267,700</u>
Fund Balance, Ending	<u>\$ 451,234</u>	<u>\$ 2,620,966</u>	<u>\$ 6,489,111</u>	<u>\$ 9,561,311</u>



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

June 20, 2018

Members of the Board
of County Road Commissioners
of Saginaw County
Saginaw, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Saginaw County Road Commission as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Saginaw County Road Commission's basic financial statements and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

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

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

Members of the Board
of County Road Commissioners
of Saginaw County
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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

Compliance and Other Matters

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

Road Commission's Response to Findings

The Road Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Road Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of Report

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

Gardner, Proronyano, Thomas & Luplow, P.C.

Certified Public Accountants

SAGINAW COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Financial Statement Audit Findings

Finding 2017-1

PA2 of 1968, the Uniform Budgeting and Accounting Act, as amended, requires that a deviation from the original general appropriations act shall not be made without amending the general appropriations act. When necessary, the budget must be amended. The amendment must be approved by the legislative body prior to the expenditure being made.

The Michigan Department of Treasury requires that any budget overage in expenditures be reported as a deficiency. We noted several line item budget overages. In addition, expenditures in total were over budget.

Management's Response

We will monitor the budget more closely in the future and amend as close to year-end as possible.