

SAGINAW COUNTY ROAD COMMISSION

Saginaw, Michigan

Financial Statements
December 31, 2011



Gardner | Provenzano
Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

March 8, 2012

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the Saginaw County Road Commission, a component unit of Saginaw County, as of and for the year ended December 31, 2011, which comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Saginaw County Road Commission's management. Our responsibility is to express an opinion 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 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Saginaw County Road Commission as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year, the Saginaw County Road Commission implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications under GASB No. 54.

Members of the Board
of County Road Commissioners
of Saginaw County
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In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012, on our consideration of the Saginaw County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 and budgetary comparison information 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 inquires 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Saginaw County Road Commission's basic financial statements. The accompanying other additional supplemental information and schedule of expenditures of federal awards as identified in the table of contents, are not a required part of the basic financial statements. The additional supplemental information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 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.

Gardner, Provengano, Schauman & Thomas, 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, 2011

INTRODUCTION

The Saginaw County Road Commission (SCRC) is a special purpose government engaged in a single government program of road and bridge maintenance and construction in the County of Saginaw, Michigan. In accordance with GASB-34 the SCRC financial statement presentation includes financial information reported on the modified accrual accounting method as well as on the full accrual method of accounting. 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). Capital assets and infrastructure are not recognized as assets and capitalized at the governmental fund level.

In FY2009, Saginaw County Road Commission adopted GASB-45. This accounting pronouncement states that public employers can no longer report post-retirement health benefits on a pay-as-you-go basis and must instead account for and report the annual cost of other post-retirement (OPEB) benefits for current and future retirees. While public employers are not required to pre-fund OPEB benefits, they are required to show the liability on their Government Wide Financial Statements. An actuarial evaluation is required every 3 years for an entity our size. The current actuarial evaluation is for benefits offered as of December 31, 2007. Please note that this evaluation does not take into account the decrease in benefits offered that have taken place since that time. The actuarial calculation is a tool, similar to the actuarial calculation for our pension system, to inform the readers of these financial statements of the true liability associated with the benefits we offer.

As allowed for single purpose governments, the Statements of Net Assets 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 Assets and Governmental Fund Balance Sheet,
- Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets,
- 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, 2011

CONDENSED FINANCIAL STATEMENTS

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

Condensed Statement of Net Assets

	Assets	2011	2010
Current		\$ 8,559,459	\$ 9,609,027
Capital assets		162,060,239	158,450,954
Total Assets		<u>\$ 170,619,698</u>	<u>\$ 168,059,981</u>
	Liabilities		
Current		\$ 1,019,315	\$ 623,867
Long-term liabilities		3,521,760	2,728,600
Total Liabilities		<u>\$ 4,541,075</u>	<u>\$ 3,352,467</u>
	Net Assets		
Restricted for County Roads		\$ 5,246,565	\$ 7,484,741
Invested in capital assets - net of related debt		160,832,058	157,222,773
Total Net Assets		<u>\$ 166,078,623</u>	<u>\$ 164,707,514</u>

Condensed Statement of Activities

	Revenue	2011	2010
Federal and State Revenue		\$ 18,716,139	\$ 20,227,749
Contributions from Local units		3,560,711	2,335,072
Other, including charges for services		583,210	234,893
Total Revenue		<u>22,860,060</u>	<u>22,797,714</u>
	Expenses		
Primary preventive/routine maintenance		5,072,079	4,682,293
Local preventive/routine maintenance		5,854,625	6,126,108
Depreciation		8,191,813	8,004,683
Administrative		769,142	755,499
Other		1,601,292	1,044,810
Total Expenses		<u>21,488,951</u>	<u>20,613,393</u>
Change In Net Assets		<u>\$ 1,371,109</u>	<u>\$ 2,184,321</u>

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2011

NET ASSETS

Restricted net assets are those net assets that have constraints placed on them 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 Assets increased by \$1,371,109 during the year ending December 31, 2011. The largest portion of that increase was investment in capital assets-net of related debt in the amount of \$3,609,285. Additions of infrastructure, for example roads and bridges, represent the majority of the increase in investment in capital assets. Depreciation for the current year's infrastructure additions will begin in the subsequent year. Restricted net assets decreased by \$2,238,176.

Revenue increased by \$62,346 from 2010. Though increases and decreases were in many different accounts, the most significant increase was in contributions from Local units.

Expenses increased by \$875,558 from 2010. The most significant increases were in the Net Equipment Expense and OPEB expense which are included in other expenses in the Condensed Statement of Activities on the previous page.

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, 2011, the general fund balance decreased by \$1,445,016, or 16% of the beginning general fund balance. We had planned for a decrease in fund balance in the amount of \$2,583,736; however, Township Revenue was significantly more than anticipated. (Please see bulleted items under "Original Budget vs. Amended Budget" for further explanation.)

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, 2011

ORIGINAL BUDGET VERSUS AMENDED BUDGET

The 2011 budget was adopted in December 2010. The budget is reviewed periodically and amended as information becomes available or management's plans change. In December 2010, management budgeted for many primary projects, including Federal and State funded projects to be completed during FY2011.

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

- Federal Revenue decreased by \$3,709,029 while the State Revenue increased by \$3,823,638. This transfer in funds from Federal to State revenue is due to the Dixie Highway Bridge and the Freeland Road Bridge projects being budgeted under Federal Revenue. When the final MDOT contracts came through, all revenue for these two projects were funded with State Bridge funds instead.
- Township revenue increased by \$1,483,750 due to the underestimation of the local contributions from Townships towards maintenance projects and some preservation projects. At the time the original budget was developed, most Township project data is not available for us to make a more accurate estimation. If revenue sharing for the Townships continues to decline, this will be even harder to estimate in the future.
- Private source contributions increased by \$310,873, due to the acceptance of subdivisions, built by private developers, for maintenance purposes. At the beginning of the year, it is unknown how many subdivisions will be built during the year.
- Construction/Capacity Improvements increased by \$703,890 mainly due to the subdivisions explained in the previous bullet point, and also due to some carry over projects.
- Preservation/Structural Improvements decreased by \$456,022, mainly due to the decrease in distributive costs associated with these categories.
- Preventative maintenance increase of \$1,499,855 was due to the original budget numbers being somewhat conservative. In addition, during the year we also added additional funds in the sealcoat, crackseal and hot patch areas. With the addition of these funds, additional distributive costs are also added.
- Equipment--Net increased by \$589,865 due to budgeting less rental credits and the related distributive expenses related to these accounts.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2011

AMENDED BUDGET VERSUS ACTUAL

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

- Township Revenue was over the final budget by \$664,583, due to several projects in Tittabawassee Township being billed late. Because Township projects are all rolled into one account number, and because we are unsure of how much allocation monies will be used towards these projects, it is difficult to accurately estimate how much Township revenue will be received.
- Construction/Capacity Improvements was \$294,316 less than the final budget, due to the anticipated expense for the HSC project settlement not happening.
- Preservation/Structural Improvement and Preventative/Routine Maintenance variances are attributed to distributive expenses.
- Equipment-Net decreased by \$383,786 mainly due to distributive expenses associated in the Indirect Category.

CAPITAL ASSETS

SCRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$162,060,239, which is an increase of \$3,609,285. This information, which includes infrastructure, is summarized below.

	2011	2010
Land and improvements	\$ 38,573,915	\$ 38,108,186
Buildings and improvements	2,718,370	2,718,370
Road equipment	14,785,959	13,830,937
Other equipment	1,224,840	1,210,053
Infrastructure assets	251,255,606	240,133,495
Total Capital Assets	308,558,690	296,001,041
Accumulated Depreciation	(146,498,451)	(137,550,087)
Net Capital Assets	<u>\$ 162,060,239</u>	<u>\$ 158,450,954</u>

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

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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 \$597,513 and the Net OPEB obligation of \$1,696,066. More details of SCRC long-term debt is presented in the notes to the financial statements. During 2010, one of the roads in the county fell in and Saginaw County Road Commission did not have the resources to fix it. We applied for a State Infrastructure Loan to secure funds for the repairing of the road. The majority of these funds will be paid back, starting in 2013, with Federal funds. The balance of the loan at December 31, 2011 was \$1,228,181.

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. However, the Saginaw County Road Commission is continually looking for land in the northern part of the County to house a salt barn and possibly a new maintenance garage.

**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 ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2011

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 214,597	\$ -	\$ 214,597
Investment	4,529,075	-	4,529,075
Accounts Receivable			
Michigan Transportation Department	1,970,880	-	1,970,880
Sundry	49,080	-	49,080
Cities, Townships and Villages	1,034,923	-	1,034,923
Interest	2,063	-	2,063
Inventories			
Equipment materials and parts	306,646	-	306,646
Road materials	74,234	-	74,234
Prepays	377,961	-	377,961
Capital assets, net of accumulated depreciation	-	162,060,239	162,060,239
Total Assets	<u>\$ 8,559,459</u>	<u>\$ 162,060,239</u>	<u>\$ 170,619,698</u>
LIABILITIES			
Accounts payable	\$ 796,466	\$ -	\$ 796,466
Accrued liabilities	94,014	-	94,014
Advances	2,000	-	2,000
Other liabilities	123,392	-	123,392
Deferred revenues	3,443	-	3,443
Long-term liabilities			
State infrastructure bank loan	-	1,228,181	1,228,181
Compensated absences-due in more than one year	-	597,513	597,513
Net OPEB obligation	-	1,696,066	1,696,066
Total Liabilities	<u>1,019,315</u>	<u>3,521,760</u>	<u>4,541,075</u>
FUND BALANCE/NET ASSETS			
Fund Balances:			
Nonspendable	758,841		
Restricted for County Roads	6,781,303	(6,781,303)	-
Total Fund Balance	<u>7,540,144</u>	<u>(6,781,303)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 8,559,459</u>		
Net Assets:			
Invested in capital assets, net of related debt		160,832,058	160,832,058
Restricted for County Roads		5,246,565	5,246,565
Total Net Assets		<u>\$ 166,078,623</u>	<u>\$ 166,078,623</u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balance	\$ 7,540,144
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	162,060,239
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(3,521,760)
Net Assets of Governmental Activities	<u>\$ 166,078,623</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, 2011**

	General Fund	Adjustments	Statement of Activities
Revenue			
Federal	\$ 2,036,524	\$ -	\$ 2,036,524
State	16,679,615	-	16,679,615
County			
City and Villages	24,446	-	24,446
Township	3,514,583	-	3,514,583
Other government	21,682	-	21,682
Interest	37,036	-	37,036
Charge for services	77,318	-	77,318
Gain on disposal	29,672	-	29,672
Other revenue	128,311	-	128,311
Private source contributions	310,873	-	310,873
Total Revenue	<u>22,860,060</u>	<u>-</u>	<u>22,860,060</u>
Expenditures/expense			
Primary construction/capacity improvements	156,372	(156,372)	-
Primary preservation/structural improvements	7,071,800	(7,071,800)	-
Primary preventive/routine maintenance	5,072,079	-	5,072,079
Local construction/capacity improvements	310,873	(310,873)	-
Local preservation/structural improvements	4,048,794	(4,048,794)	-
Local preventive/routine maintenance	5,854,625	-	5,854,625
Administrative	693,940	38,357	732,297
Net equipment expense	224,898	-	224,898
Net capital outlay			
Capital outlay	1,256,290	(1,256,290)	-
Depreciation credits	(1,043,031)	1,043,031	-
Debt service interest	36,845	-	36,845
Infrastructure Depreciation	-	8,191,813	8,191,813
Drain assessment	133,103	-	133,103
Other Non-road	488,488	-	488,488
OPEB benefits	-	754,803	754,803
Total Expenditures/expense	<u>24,305,076</u>	<u>(2,816,125)</u>	<u>21,488,951</u>
Net Change in Fund Balance/Net Assets	(1,445,016)	2,816,125	1,371,109
Fund Balance/Net Assets - Beginning of Year	8,985,160	155,722,354	164,707,514
Fund Balance/Net Assets - End of Year	<u>\$ 7,540,144</u>	<u>\$ 158,538,479</u>	<u>\$ 166,078,623</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, 2011

Net Change in fund balance--total governmental funds	\$ (1,445,016)
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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
 retirement is recorded as an expenditure credit in governmental
 funds, but not recorded as an expense in the statement of activities.

Capital outlay	12,844,129
Depreciation	(9,234,801)
Equipment retirement	(43)

The difference between the actuarially determined Annual Required Contribution to fund Other Post-Employment Benefits and the actual contributions made during the year is reported as an expense in the Statement of Activities, but does not require the use of current resources and therefore is not reported as an expenditure in the fund level statements.	(754,803)
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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. (Changes in compensated absences)	(38,357)
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Change in net assets of governmental activities	<u>\$ 1,371,109</u>
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See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

SAGINAW COUNTY ROAD COMMISSION 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. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB 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 GASB Statement 14, 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 Assets and the Statement of Changes in Net Assets) 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 assets from the current year's activities.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

B. Government-Wide Statements and Fund Financial Statements (continued)

The Operating Fund 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.

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. 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, and Net Assets or Equity

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.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

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.

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.

E. 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. Neither these assets nor related depreciation have historically been reported in the financial statements issued before the adoption of GASB 34. The Commission has implemented the general provisions and the retroactive infrastructure reporting requirements in the year of GASB 34 adoption.

F. 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.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

- 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.
- 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.

G. 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.

Deferred Revenue

Deferred revenue consists of prepaid permits.

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.

Deposits

Performance deposits are amounts paid by contractors and held by the Commission until the projects are completed and inspected.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

H. Fund Balance Classifications

In accordance with Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, 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.
- **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.

Accounting Change – The Road Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 54. The implementation included changes in fund balance as discussed above.

Subsequent Events – The financial statements and related disclosure include evaluation of events up through and including March 8, 2012, which is the date the financial statements were available to be issued.

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.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--CASH AND INVESTMENTS (continued)

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.

A summary of cash and investments follows:

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents Commission's insured or collateralized deposits with securities held by the Commission or by its agent in the commission's name.
- Category 2 represents the Commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the Commission's name.
- Category 3 represents the Commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in Commission's name.

	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ 250,000	\$ -	\$ 110,803	\$ 360,803	\$ 214,215
Investment held by County	-	-	4,529,075	4,542,280	4,529,075
Cash on hand	-	-	382	-	382
Totals	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 4,640,260</u>	<u>\$ 4,903,083</u>	<u>\$ 4,743,672</u>

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

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 3--CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the year are as follows:

Governmental Activities	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011
Capital Assets Not Being Depreciated				
Land	\$ 618,385	\$ -	\$ -	\$ 618,385
Total Land and Improvements	618,385	-	-	618,385
Other Capital Assets				
Land and improvements, infrastructure	37,489,801	465,729	-	37,955,530
Land Improvements	444,577	-	-	444,577
Depletable Assets	42,008	-	-	42,008
Buildings	2,231,785	-	-	2,231,785
Road equipment	13,830,937	1,227,994	272,972	14,785,959
Shop equipment	135,698	3,090	-	138,788
Engineers equipment	248,608	-	-	248,608
Yard and storage equipment	5,646	-	-	5,646
Office equipment	820,101	25,205	13,508	831,798
Infrastructure and improvements	240,133,495	11,122,111	-	251,255,606
Total Other Capital Assets	295,382,656	12,844,129	286,480	307,940,305
Total Capital Assets	296,001,041	12,844,129	286,480	308,558,690
Accumulated Depreciation				
Land Improvements	401,661	8,480	-	410,141
Depletable Assets	3,914	-	-	3,914
Buildings	1,762,341	50,743	-	1,813,084
Road equipment	11,315,372	887,136	272,972	11,929,536
Shop equipment	124,982	5,600	-	130,582
Engineers equipment	125,811	5,286	-	131,097
Yard and storage equipment	5,646	-	-	5,646
Office equipment	625,944	85,743	13,465	698,222
Infrastructure and improvements	123,184,416	8,191,813	-	131,376,229
Total Accumulated Depreciation	137,550,087	9,234,801	286,437	146,498,451
Total Net Capital Assets	\$ 158,450,954	\$ 3,609,328	\$ 43	\$ 162,060,239

NOTE 4--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 expended for unemployment for the year ended December 31, 2011 was \$1,448.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

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, 2011 is \$332,698. Additionally, up to twenty days vacation may be carried over to a succeeding year, subject to certain restrictions. Accumulated vacation payable at December 31, 2011 is \$264,815.

State Infrastructure Bank Loan (SIB Loan)

The SIB Loan has been issued pursuant to Section 350 of the National Highway System Designation Act of 1995. The financing from these notes was used to fund improvements to Sharon Road in Saginaw County. The loan is due in full August 15, 2015. Interest paid on the loan is set at 3% of unpaid balance.

Following is a summary of long term liabilities for the year ended December 31, 2011:

	Balance 1/1/2011	Increase	Reduction	Balance 12/31/2011	Due Within One year
Compensated absences	\$ 559,156	\$ 62,581	\$ 24,224	\$ 597,513	\$ -
SIB Loan	1,228,181	-	-	1,228,181	-
Total	<u>\$ 1,787,337</u>	<u>\$ 62,581</u>	<u>\$ 24,224</u>	<u>\$ 1,825,694</u>	<u>\$ -</u>

Annual debt service requirements to maturity for the above obligations area as follows:

	Principal	Interest	Total
2012	\$ -	\$ 36,846	\$ 36,846
2013	445,000	36,846	481,846
2014	462,977	23,495	486,472
2015	320,204	9,606	329,810
Compensated absences	597,513	-	597,513
	<u>\$ 1,825,694</u>	<u>\$ 106,793</u>	<u>\$ 1,932,487</u>

SAGINAW COUNTY ROAD COMMISSION NOTES TO FINANCIAL STATEMENTS

NOTE 6--PENSION PLAN

Plan Description

The SCRC's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The SCRC participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended by 1996 PA 220, establishes and amends the benefit provisions of the participants in MERS. The fiscal year for the retirement plan ends December 31. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing MERS, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The union members of the plan are required to contribute at a current rate of 4.7% of annual covered payroll. Management is currently contributing 4.7% of annual covered payroll. The employer contribution requirements are established and may be amended by the Retirement Board of MERS. The employee contribution requirements, if any, are established and may be amended by the SCRC depending on the MERS contribution program adopted by the SCRC.

Annual Pension Cost

For the year ended December 31, 2011, the Road Commission's annual pension cost and required contribution was \$346,311. The required contribution was determined as part of the December 31, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an assumed rate of investment return which is used to discount liabilities and project what plan assets will earn, the net long-term investment yield is assumed to be 8%, (b) a mortality table projecting the number of employees who will die before retirement and the duration of benefit payments after retirement, (c) assumed retirement rates projected when employees will retire and commence receiving benefits, (d) a set of withdrawal and disability rates to estimate the number of employees who will leave the work force before retirement, (e) assumed rates of salary increases of 4.5% to project employees compensation in future years and (f) no specific price inflation assumption was needed for this valuation, the 4.5% wage inflation assumption would be consistent with a price inflation of 3% to 4%. The actuarial value of MERS assets was determined on a basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The actuarial value of assets is determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income earned on a market value basis.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--PENSION PLAN (continued)

Three-year Trend Information

Fiscal Year Period Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Asset
12/31/2009	\$ 194,872	177%	\$ 150,000
12/31/2010	\$ 251,039	100%	\$ -
12/31/2011	\$ 346,311	100%	\$ -

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded (Over Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/ (c)
12/31/2008	\$ 24,901,257	\$ 25,741,433	\$ 840,176	97%	\$3,379,869	25%
12/31/2009	\$ 24,465,502	\$ 25,889,973	\$ 1,424,471	94%	\$3,500,897	41%
12/31/2010	\$ 24,385,884	\$ 26,498,544	\$ 2,112,660	92%	\$3,418,831	62%

NOTE 7--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 omission; 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 SIP 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 the MCRCSIP and the CRASIF have the authority to bill the member road commissions retroactively.

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

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 8--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.

NOTE 9--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, 2007, 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, 2007, the membership of the plan was seventy-nine active members and eighty-one 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 are obligated to make contributions to the plan based upon the union contract. 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, 2011, approximately \$784,654 for postemployment benefits was paid and recorded as expenditures in the general fund.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 9--POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONT.)

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.

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:

Annual required contribution (ARC)	\$ 1,529,558
Interest on Net OPEB obligation	42,356
Less adjustments to ARC	<u>(32,457)</u>
Annual OPEB cost	1,539,457
Amounts contributed:	
Payments of current premiums	(784,654)
Advanced funding	<u>-</u>
Increase (decrease) in net OPEB obligation	754,803
OPEB obligation beginning of the year	<u>941,263</u>
OPEB obligation end of the year	<u><u>\$ 1,696,066</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:

Fiscal Year Ended	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net Pension Obligation
12/31/2009	\$ 1,400,661	63%	\$ 480,797
12/31/2010	\$ 1,406,270	64%	\$ 941,263
12/31/2011	\$ 1,539,457	51%	\$ 1,696,066

The funding progress of the plan as of December 31, 2007, the date of the last actuary report, is as follows:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	23,370,956
Unfunded actuarial accrued liability (UAAL)	23,370,956
Funded ratio	0%

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 9--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, 2007 actuarial report are as follows:

1. A rate of return on investments 4.5%.
2. Mortality: 1994 Group Annuity table blended 50% male/50% female.
3. Projected salary increase of 4.80% to 12.90% depending on age, attributable to seniority/merit.
4. Projected healthcare benefit increases of 4.5% - 9%.

NOTE 10--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, 2011, the Federal aid received and expended by the Road Commission was \$1,889,312 for contracted projects and \$81,018 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 \$500,000 or more for negotiated projects.

REQUIRED SUPPLEMENTAL INFORMATION

SAGINAW COUNTY ROAD COMMISSION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Federal	\$ 5,754,981	\$ 2,045,952	\$ 2,036,524	\$ (9,428)
State	12,945,090	16,768,728	16,679,615	(89,113)
County				
City and Villages	5,000	24,000	24,446	446
Township	1,366,250	2,850,000	3,514,583	664,583
Other government	10,000	18,500	21,682	3,182
Interest	50,000	40,000	37,036	(2,964)
Charge for services	70,000	75,000	77,318	2,318
Gain on disposal	64,500	23,500	29,672	6,172
Other revenue	23,000	133,100	128,311	(4,789)
Private source contributions	-	310,873	310,873	-
Total Revenue	<u>20,288,821</u>	<u>22,289,653</u>	<u>22,860,060</u>	<u>570,407</u>
Expenditures				
Construction/capacity improvements	57,671	761,561	467,245	294,316
Preservation/structural improvements	11,143,989	10,687,967	11,120,594	(432,627)
Preventive/routine maintenance	9,842,220	11,342,075	10,926,704	415,371
Administration	732,000	713,000	693,940	19,060
Capital Outlay-net	211,700	24,000	213,259	(189,259)
Equipment-net	18,819	608,684	224,898	383,786
Drain assessment	133,102	133,102	133,103	(1)
Other	457,911	566,000	488,488	77,512
Debt service	80,000	37,000	36,845	155
Total Expenditures	<u>22,677,412</u>	<u>24,873,389</u>	<u>24,305,076</u>	<u>568,313</u>
Change in Fund Balance	(2,388,591)	(2,583,736)	(1,445,016)	1,138,720
Fund Balance, Beginning of Year	8,985,160	8,985,160	8,985,160	-
Fund Balance, End of Period	<u>\$ 6,596,569</u>	<u>\$ 6,401,424</u>	<u>\$ 7,540,144</u>	<u>\$ 1,138,720</u>

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, 2011

	Appropriated		County	
	Primary	Local	Roads	Total
	Roads	Roads		
Revenues				
Federal				
Surface transportation program	\$ 1,602,398	\$ -	\$ -	\$ 1,602,398
Other	367,932	-	66,194	434,126
Total Federal	<u>1,970,330</u>	<u>-</u>	<u>66,194</u>	<u>2,036,524</u>
State				
Engineering	6,673	3,327	-	10,000
Urban road	1,061,768	545,736	-	1,607,504
Allocation	7,202,247	3,590,400	-	10,792,647
Local bridge	3,261,510	-	-	3,261,510
Other	443,913	-	-	443,913
Economic development fund	564,041	-	-	564,041
Total State	<u>12,540,152</u>	<u>4,139,463</u>	<u>-</u>	<u>16,679,615</u>
County				
City and villages	-	-	24,446	24,446
Township	8,462	3,506,121	-	3,514,583
Other government	-	-	21,682	21,682
Total County	<u>8,462</u>	<u>3,506,121</u>	<u>46,128</u>	<u>3,560,711</u>
Other				
Interest and rents	12,654	15,232	9,150	37,036
Charges for services	7,732	50,257	19,329	77,318
Gain (loss) equipment disposals	5,638	7,121	16,913	29,672
Other	903	904	126,504	128,311
Private source contributions	-	310,873	-	310,873
Total Other	<u>26,927</u>	<u>384,387</u>	<u>171,896</u>	<u>583,210</u>
Total Revenues	<u>\$ 14,545,871</u>	<u>\$ 8,029,971</u>	<u>\$ 284,218</u>	<u>\$ 22,860,060</u>

See independent auditor's report on supplementary information.

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Appropriated		County	
	Primary	Local	Roads	Total
	Roads	Roads		
Expenditures				
Construction/capacity improvements	\$ 156,372	\$ 310,873	\$ -	\$ 467,245
Preservation/structural improvements	7,071,800	4,048,794	-	11,120,594
Preventive/routine maintenance	5,072,079	5,854,625	-	10,926,704
Other				
Administration	379,117	314,823	-	693,940
Equipment	1,538,437	2,032,933	101,773	3,673,143
Less: equipment rental	(1,444,242)	(1,908,461)	(95,542)	(3,448,245)
Capital outlay	502,516	502,516	251,258	1,256,290
Less: depreciation credits and retirements	(198,177)	(250,327)	(594,527)	(1,043,031)
Debt service interest	36,845	-	-	36,845
Drain assessment	33,276	99,827	-	133,103
Other Non-road	-	-	488,488	488,488
Total Other	<u>847,772</u>	<u>791,311</u>	<u>151,450</u>	<u>1,790,533</u>
Total Expenditures	<u>13,148,023</u>	<u>11,005,603</u>	<u>151,450</u>	<u>24,305,076</u>
Excess of revenue over (under) expenditures	1,397,848	(2,975,632)	132,768	(1,445,016)
Other financing sources (uses)				
Optional transfer	(2,451,206)	2,451,206	-	-
Fund Balance, Beginning	3,069,955	3,695,332	2,219,873	8,985,160
Fund Balance, Ending	<u>\$ 2,016,597</u>	<u>\$ 3,170,906</u>	<u>\$ 2,352,641</u>	<u>\$ 7,540,144</u>

See independent auditor's report on supplementary information.



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
Heather A. Thomas
Brett A. Luplow

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

March 8, 2012

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

We have audited 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, 2011, which collectively comprise Saginaw County Road Commission's basic financial statements, and have issued our report thereon dated March 8, 2012. 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.

Internal Control Over Financial Reporting

Management of Saginaw County Road Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

Members of the Board
of County Road Commissioners
of Saginaw County
Page Two

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended for the information of management and the Board of County Road Commissioners and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Gardner, Provengano, Schauman & Thomas, P.C.

Certified Public Accountants

SAGINAW COUNTY ROAD COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/Pass Through <u>Grantor/Program or Cluster Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Pass-through</u> <u>Entity</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
U. S. Department of Transportation Highway Research, Planning and Construction			
<u>Michigan Department of Transportation</u>	20.205		
		45900341	70,000
		111269A	11,018
Total Other Michigan Department of Transportation Funding			<u>81,018</u>
Total negotiated Federal Awards			<u>81,018</u>
<u>Michigan Department of Transportation</u>	20.205		
		102267A	4,561
		107599A	44,676
		105329A	313,842
		111267A	400,000
		111269A	800,000
		108649A	28,301
		107987A	291,356
	ARRA	103866A	6,576
Total administered by the State of Michigan			<u>1,889,312</u>
Total Federal Funds as recorded in the financial statements			<u>\$ 1,970,330</u>

Note: Federal financial assistance, received under the highway planning and construction program, in the amount of \$1,889,312 was administered by the State of Michigan. The Road Commission has no responsibilities regarding fiscal or compliance controls over such assistance. These funds are not subject to the Single Audit Act.

See independent auditor's report on supplementary information.

SAGINAW COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Section II – Financial Statement Audit Findings

None