

SAGINAW COUNTY ROAD COMMISSION
Saginaw, Michigan

Financial Statements
December 31, 2012



Gardner | Provenzano
Thomas & Luplow

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

April 19, 2013

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, 2012, 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, 2012, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 11 to the financial statements, Saginaw County Road Commission implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, and Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 additional supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplemental information listed in the table of contents 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 additional supplemental information listed in the table of contents 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 April 19, 2013 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, Brownstone, Thomas B Duplow, 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, 2012

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, 2012. 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, 2012

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).

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.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012

CONDENSED FINANCIAL STATEMENTS

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

Condensed Statement of Net Position

	Assets	2012	Restated 2011
Current		\$ 6,643,922	\$ 8,559,459
Capital assets		162,132,970	162,060,239
Total Assets		<u>\$ 168,776,892</u>	<u>\$ 170,619,698</u>
Liabilities and Deferred Inflows			
Current		\$ 541,069	\$ 1,015,872
Long-term liabilities		4,146,754	3,521,760
Permits paid in advance		4,254	3,443
Total Liabilities and Deferred Inflows		<u>\$ 4,692,077</u>	<u>\$ 4,541,075</u>
Net Position			
Restricted for County Roads		\$ 3,099,733	\$ 5,246,565
Net invested in capital assets		160,985,082	160,832,058
Total Net Position		<u>\$ 164,084,815</u>	<u>\$ 166,078,623</u>

Condensed Statement of Activities

	Revenue	2012	2011
Federal and State Revenue		\$ 16,236,653	\$ 18,716,139
Contributions from Local units		2,341,073	3,560,711
Other, including charges for services		1,701,460	583,210
Total Revenue		<u>20,279,186</u>	<u>22,860,060</u>
Expenses			
Primary preventive/routine maintenance		5,356,500	5,072,079
Local preventive/routine maintenance		6,399,390	5,854,625
Depreciation		8,405,056	8,191,813
Administrative		755,226	769,142
Other		1,356,822	1,601,292
Total Expenses		<u>22,272,994</u>	<u>21,488,951</u>
Change In Net Position		<u>\$ (1,993,808)</u>	<u>\$ 1,371,109</u>

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2012

NET POSITION

The portion of restricted net position are those 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 Position decreased by \$1,993,808 during the year ending December 31, 2012. The largest portion of that decrease was restricted for county roads in the amount of \$2,146,832. Net investment in capital assets increased by \$153,024.

Revenue decreased by \$2,580,874 from 2011. Though increases and decreases were in many different categories, the most significant decrease was in Federal revenue.

Expenses increased by \$784,043 from 2011. The most significant increases were in the local preventive/routine maintenance and depreciation.

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, 2012, the general fund balance decreased by \$1,441,545, or 23% of the beginning general fund balance. We had planned for a decrease in fund balance in the amount of \$961,196. The variance is mostly attributable to an additional project not included in the final budget.

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, 2012

ORIGINAL BUDGET VERSUS AMENDED BUDGET

The 2012 budget was adopted in December 2011. 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 \$1,017,842, which was due to several projects pushed to the 2013 fiscal year and projects coming in under budget.
- Private source contributions were added to the budget in the amount of \$557,666. This is 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 \$868,633 mainly due to a project added that was not originally budgeted.
- Preservation/Structural Improvements decreased by \$1,979,652 due to a project pushed to the 2013 fiscal year and a project changed from construction to a redesign.
- Preventative maintenance was increased \$1,251,399 due to several maintenance functions enhanced during the year. The budget for chipseal projects was increased by \$577,000. Hot patching projects were increased by \$180,000. Gravel projects were increased by \$268,000. In addition, a new sealbend process was added in the amount of \$119,000.

AMENDED BUDGET VERSUS ACTUAL

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

- Private source contributions were \$550,923 higher than budget due to two subdivisions that were accepted that were not included in our budget. One was approximately \$380,000 and the other was approximately \$179,000.
- Construction/Capacity Improvements were \$740,570 higher than budget due to two subdivisions for a total of \$559,000 accepted and not budgeted. Additionally, a project completed by Saginaw Future was \$227,500 greater than our budget.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2012

CAPITAL ASSETS

SCRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$162,132,970, which is an increase of \$72,731. This information, which includes infrastructure, is summarized below.

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 39,463,252	\$ 38,573,915
Buildings and improvements	2,907,612	2,718,370
Road equipment	15,471,210	14,785,959
Other equipment	1,247,472	1,224,840
Infrastructure assets	<u>259,086,406</u>	<u>251,255,606</u>
Total Capital Assets	318,175,952	308,558,690
Accumulated Depreciation	<u>(156,042,982)</u>	<u>(146,498,451)</u>
Net Capital Assets	<u>\$ 162,132,970</u>	<u>\$ 162,060,239</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 \$591,549, a state infrastructure loan in the amount of \$1,147,888 and Net OPEB obligation of \$2,407,317. 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.

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.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2012

**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, 2012

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 113,229	\$ -	\$ 113,229
Investment	3,664,048	-	3,664,048
Accounts Receivable			
Michigan Transportation Department	2,008,059	-	2,008,059
Sundry	25,099	-	25,099
Cities, Townships and Villages	108,108	-	108,108
Interest	2,987	-	2,987
Inventories			
Equipment materials and parts	200,624	-	200,624
Road materials	77,147	-	77,147
Prepays	444,621	-	444,621
Capital assets, net of accumulated depreciation	-	162,132,970	162,132,970
Total Assets	<u>\$ 6,643,922</u>	<u>\$ 162,132,970</u>	<u>\$ 168,776,892</u>
LIABILITIES AND DEFERRED INFLOWS			
Accounts payable	\$ 150,697	\$ -	\$ 150,697
Accrued liabilities	95,627	-	95,627
Advances	2,000	-	2,000
Other liabilities	292,745	-	292,745
Long-term liabilities			
State infrastructure bank loan	-	1,147,888	1,147,888
Compensated absences-due in more than one year	-	591,549	591,549
Net OPEB obligation	-	2,407,317	2,407,317
Total Liabilities	<u>541,069</u>	<u>4,146,754</u>	<u>4,687,823</u>
DEFERRED INFLOWS OF RESOURCES			
Permits paid in advance	4,254	-	4,254
Total inflow of resources	<u>4,254</u>	<u>-</u>	<u>4,254</u>
Total liabilities and deferred inflows of resources	<u>545,323</u>	<u>4,146,754</u>	<u>4,692,077</u>
FUND BALANCE/NET POSITION			
Fund Balances:			
Nonspendable	722,392	(722,392)	-
Committed	868,504	(868,504)	-
Restricted for County Roads	4,507,703	(4,507,703)	-
Total Fund Balance	<u>6,098,599</u>	<u>(6,098,599)</u>	<u>-</u>
Total Liabilities, Deferred inflows of resources and Fund Balance	<u>\$ 6,643,922</u>		
Net Position:			
Invested in capital assets		160,985,082	160,985,082
Restricted for County Roads		3,099,733	3,099,733
Total Net Position		<u>\$ 164,084,815</u>	<u>\$ 164,084,815</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, 2012

Total governmental fund balance	\$ 6,098,599
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	162,132,970
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(4,146,754)
Net Position of Governmental Activities	<u>\$ 164,084,815</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, 2012

	General Fund	Adjustments	Statement of Activities
Revenue			
Federal	\$ 3,155,150	\$ -	\$ 3,155,150
State	13,081,503	-	13,081,503
County			
City and Villages	27,896	-	27,896
Township	2,291,717	-	2,291,717
Other government	21,460	-	21,460
Interest	14,928	-	14,928
Charge for services	80,198	-	80,198
Gain on disposal	128,603	-	128,603
Other revenue	428,899	(59,757)	369,142
Private source contributions	1,108,589	-	1,108,589
Total Revenue	<u>20,338,943</u>	<u>(59,757)</u>	<u>20,279,186</u>
Expenditures/expense			
Primary construction/capacity improvements	1,369,891	(1,369,891)	-
Primary preservation/structural improvements	4,181,785	(4,181,785)	-
Primary preventive/routine maintenance	5,356,500	-	5,356,500
Local construction/capacity improvements	559,500	(559,500)	-
Local preservation/structural improvements	2,668,711	(2,668,711)	-
Local preventive/routine maintenance	6,399,390	-	6,399,390
Administrative	721,483	(5,964)	715,519
Net equipment expense	405,193	-	405,193
Net capital outlay			
Capital outlay	961,490	(961,490)	-
Depreciation credits	(1,203,833)	1,203,833	-
Debt service	120,000	(80,293)	39,707
Infrastructure Depreciation	-	8,405,056	8,405,056
Drain assessment	129,313	-	129,313
Other Non-road	111,065	-	111,065
OPEB benefits	-	711,251	711,251
Total Expenditures/expense	<u>21,780,488</u>	<u>492,506</u>	<u>22,272,994</u>
Net Change in Fund Balance/Net Position	(1,441,545)	(552,263)	(1,993,808)
Fund Balance/Net Position - Beginning of Year	7,540,144	158,538,479	166,078,623
Fund Balance/Net Position - End of Year	<u>\$ 6,098,599</u>	<u>\$ 157,986,216</u>	<u>\$ 164,084,815</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, 2012

Net Change in fund balance--total governmental funds \$ (1,441,545)

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	9,741,369
Depreciation	(9,607,615)
Proceeds from sale of capital assets	(59,757)
Book value of assets sold	(1,266)

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. (711,251)

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.

Payment of long-term debt	80,293
Compensated absences	5,964

Change in net position of governmental activities	<u>\$ (1,993,808)</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. 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. 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.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO 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.

Permits paid in advance

Permits paid in advance 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.

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

6. Fund Balance Classifications

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.

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, 2012, \$868,504 was committed in the amended 2013 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 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. The Commission had no deferred outflows at December 31, 2012.

In addition to liabilities, the statement of financial position 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 has only one type of item that qualifies for reporting in this category. Accordingly, the item, permits paid in advance, 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.

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.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

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.

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.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--CASH AND INVESTMENTS (continued)

	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ 147,709	\$ -	\$ -	\$ 147,709	\$ 112,847
Investment held by County	-	-	3,664,048	3,664,048	3,664,048
Cash on hand	-	-	382	-	382
Totals	<u>\$ 147,709</u>	<u>\$ -</u>	<u>\$ 3,664,430</u>	<u>\$ 3,811,757</u>	<u>\$ 3,777,277</u>

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

NOTE 3--CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the year are as follows:

Governmental Activities	Balance 12/31/2011	Additions	Retirements	Balance 12/31/2012
Capital Assets Not Being Depreciated				
Land	\$ 618,385	\$ -	\$ 59,750	\$ 558,635
Land and improvements, infrastructure	37,955,530	949,087	-	38,904,617
Total Land and Improvements	<u>38,573,915</u>	<u>949,087</u>	<u>59,750</u>	<u>39,463,252</u>
Other Capital Assets				
Land Improvements	444,577	5,654	-	450,231
Depletable Assets	42,008	-	-	42,008
Buildings	2,231,785	183,588	-	2,415,373
Road equipment	14,785,959	743,636	58,385	15,471,210
Shop equipment	138,788	-	-	138,788
Engineers equipment	248,608	-	-	248,608
Yard and storage equipment	5,646	-	-	5,646
Office equipment	831,798	28,604	5,972	854,430
Infrastructure and improvements	251,255,606	7,830,800	-	259,086,406
Total Other Capital Assets	<u>269,984,775</u>	<u>8,792,282</u>	<u>64,357</u>	<u>278,712,700</u>
Total Capital Assets	<u>308,558,690</u>	<u>9,741,369</u>	<u>124,107</u>	<u>318,175,952</u>
Accumulated Depreciation				
Land Improvements	410,141	8,630	-	418,771
Depletable Assets	3,914	-	-	3,914
Buildings	1,813,084	51,175	-	1,864,259
Road equipment	11,929,536	1,061,215	58,385	12,932,366
Shop equipment	130,582	2,071	-	132,653
Engineers equipment	131,097	4,611	-	135,708
Yard and storage equipment	5,646	-	-	5,646
Office equipment	698,222	74,857	4,699	768,380
Infrastructure and improvements	131,376,229	8,405,056	-	139,781,285
Total Accumulated Depreciation	<u>146,498,451</u>	<u>9,607,615</u>	<u>63,084</u>	<u>156,042,982</u>
Total Net Capital Assets	<u>\$ 162,060,239</u>	<u>\$ 133,754</u>	<u>\$ 61,023</u>	<u>\$ 162,132,970</u>

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

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. There were no expenditures for unemployment for the year ended December 31, 2012.

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, 2012 is \$305,998. Additionally, up to twenty days vacation may be carried over to a succeeding year, subject to certain restrictions. Accumulated vacation payable at December 31, 2012 is \$285,551.

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, 2012:

	Balance 1/1/2012	Increase	Reduction	Balance 12/31/2012	Due Within One year
Compensated absences	\$ 597,513	\$ 45,801	\$ 51,765	\$ 591,549	\$ -
SIB Loan	1,228,181	-	80,293	1,147,888	450,050
Total	<u>\$ 1,825,694</u>	<u>\$ 45,801</u>	<u>\$ 132,058</u>	<u>\$ 1,739,437</u>	<u>\$ 450,050</u>

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

	Principal	Interest	Total
2013	\$ 450,050	\$ 31,795	\$ 481,845
2014	465,537	20,935	486,472
2015	232,301	6,969	239,270
Compensated absences	591,549	-	591,549
	<u>\$ 1,739,437</u>	<u>\$ 59,699</u>	<u>\$ 1,799,136</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, 2012, the Road Commission's annual pension cost and required contribution was \$386,130. The required contribution was determined as part of the December 31, 2010, 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
12/31/2010	\$ 251,039	100%	\$ -
12/31/2011	\$ 346,311	100%	\$ -
12/31/2012	\$ 386,130	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)
12/31/2009	\$ 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%
12/31/2011	\$ 24,317,610	\$ 27,452,863	\$ 3,135,253	89%	\$3,404,013	92%

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.

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, 2010, 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, 2010, 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, 2012, approximately \$711,251 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)	\$ 1,580,828
Interest on Net OPEB obligation	67,842
Less adjustments to ARC	<u>(101,841)</u>
Annual OPEB cost	1,546,829
Amounts contributed:	
Payments of current premiums	(835,578)
Advanced funding	<u>-</u>
Increase (decrease) in net OPEB obligation	711,251
OPEB obligation beginning of the year	<u>1,696,066</u>
OPEB obligation end of the year	<u><u>\$ 2,407,317</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 Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2010	\$ 1,406,270	64%	\$ 941,263
12/31/2011	\$ 1,539,457	51%	\$ 1,696,066
12/31/2012	\$ 1,546,829	54%	\$ 2,407,317

The funding progress of the plan as of December 31, 2010, the date of the last actuary report, is as follows:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	18,156,947
Unfunded actuarial accrued liability (UAAL)	18,156,947
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, 2010 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, 2012, the Federal aid received and expended by the Road Commission was \$3,061,296 for contracted projects and \$93,854 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.

NOTE 11--NEW ACCOUNTING STANDARDS

For the year ended December 31, 2012 the Road Commission implemented the following new pronouncements:

GASB Statement 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

NOTE 11--NEW ACCOUNTING STANDARDS (CONTINUED)

Summary:

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65 Items previously reported as Assets and Liabilities.*

Summary:

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statements No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncement by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

NOTE 12--SUBSEQUENT EVENTS

The financial statements and related disclosure include evaluation of events up through and including April 19, 2013, which is the date the financial statements were available to be issued.

NOTE 13--UPCOMING ACCOUNTING PRONOUNCEMENT

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

REQUIRED SUPPLEMENTAL INFORMATION

SAGINAW COUNTY ROAD COMMISSION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Federal	\$ 4,009,635	\$ 2,991,793	\$ 3,155,150	\$ 163,357
State	12,885,650	13,054,172	13,081,503	27,331
County				
City and Villages	22,500	30,000	27,896	(2,104)
Township	1,873,000	2,342,077	2,291,717	(50,360)
Other government	10,000	18,000	21,460	3,460
Interest	35,000	15,000	14,928	(72)
Charge for services	70,000	80,000	80,198	198
Gain on disposal of capital assets	28,000	147,000	128,603	(18,397)
Other revenue	23,000	419,167	428,899	9,732
Private source contributions	-	557,666	1,108,589	550,923
Total Revenue	<u>18,956,785</u>	<u>19,654,875</u>	<u>20,338,943</u>	<u>684,068</u>
Expenditures				
Construction/capacity improvements	320,188	1,188,821	1,929,391	(740,570)
Preservation/structural improvements	8,754,617	6,774,965	6,850,496	(75,531)
Preventive/routine maintenance	10,133,551	11,384,950	11,755,890	(370,940)
Administration	718,000	772,750	721,483	51,267
Capital Outlay-net	(341,780)	(300,000)	(242,343)	(57,657)
Equipment-net	349,105	450,785	405,193	45,592
Drain assessment	130,000	129,350	129,313	37
Other	102,038	94,450	111,065	(16,615)
Debt service	120,000	120,000	120,000	-
Total Expenditures	<u>20,285,719</u>	<u>20,616,071</u>	<u>21,780,488</u>	<u>(1,164,417)</u>
Change in Fund Balance	(1,328,934)	(961,196)	(1,441,545)	(480,349)
Fund Balance, Beginning of Year	7,540,144	7,540,144	7,540,144	-
Fund Balance, End of Period	<u>\$ 6,211,210</u>	<u>\$ 6,578,948</u>	<u>\$ 6,098,599</u>	<u>\$ (480,349)</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, 2012

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Revenues				
Federal				
Surface transportation program	\$ 1,301,331	\$ -	\$ -	\$ 1,301,331
Bridge	804,871	-	-	804,871
Other	1,000,733	-	48,215	1,048,948
Total Federal	3,106,935	-	48,215	3,155,150
State				
Engineering	6,694	3,306	-	10,000
Urban road	1,068,759	549,736	-	1,618,495
Allocation	7,226,774	3,569,183	-	10,795,957
Local bridge	657,051	-	-	657,051
Total State	8,959,278	4,122,225	-	13,081,503
County				
City and villages	-	-	27,896	27,896
Township	-	2,291,717	-	2,291,717
Other government	-	-	21,460	21,460
Total County	-	2,291,717	49,356	2,341,073
Other				
Interest and rents	3,993	6,277	4,658	14,928
Charges for services	8,020	52,129	20,049	80,198
Land and building sales	-	-	59,750	59,750
Gain (loss) equipment disposals	13,082	16,525	39,246	68,853
Sundry refunds	2,798	2,798	39,238	44,834
Other	-	-	384,065	384,065
Private source contributions	-	1,108,589	-	1,108,589
Total Other	27,893	1,186,318	547,006	1,761,217
Total Revenues	\$ 12,094,106	\$ 7,600,260	\$ 644,577	\$ 20,338,943

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, 2012

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Expenditures				
Construction/capacity improvements	\$ 1,369,891	\$ 559,500	\$ -	\$ 1,929,391
Preservation/structural improvements	4,181,785	2,668,711	-	6,850,496
Preventive/routine maintenance	5,356,500	6,399,390	-	11,755,890
Other				
Administration	383,237	338,246	-	721,483
Equipment	1,555,754	2,114,763	110,156	3,780,673
Less: equipment rental	(1,389,016)	(1,888,114)	(98,350)	(3,375,480)
Capital outlay	384,593	384,593	192,304	961,490
Less: depreciation credits and retirements	(228,729)	(288,919)	(686,185)	(1,203,833)
Debt service	120,000	-	-	120,000
Drain assessment	32,328	96,985	-	129,313
Other Non-road	-	-	111,065	111,065
Total Other	<u>858,167</u>	<u>757,554</u>	<u>(371,010)</u>	<u>1,244,711</u>
Total Expenditures	<u>11,766,343</u>	<u>10,385,155</u>	<u>(371,010)</u>	<u>21,780,488</u>
Excess of revenue over (under) expenditures	327,763	(2,784,895)	1,015,587	(1,441,545)
Other financing sources (uses)				
Optional transfer	(1,500,000)	1,500,000	-	-
Fund Balance, Beginning	2,016,597	3,170,906	2,352,641	7,540,144
Fund Balance, Ending	<u>\$ 844,360</u>	<u>\$ 1,886,011</u>	<u>\$ 3,368,228</u>	<u>\$ 6,098,599</u>

See independent auditor's report on supplementary information.



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*

April 19, 2013

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, 2012, 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 April 19, 2013.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. 2012-1.

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, Provenzano, Thomas & Luplow, P.C.

Certified Public Accountants

SAGINAW COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II – Financial Statement Audit Findings

Reference
Number

Findings

Finding

2012-1

Finding Type

Significant deficiency over financial reporting and risk of misappropriation of assets.

Criteria

Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Road Commission. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition

The Road Commission has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include cash reconciliation, payroll and journal entries.

Cause

The relatively small number of people involved in the accounting functions of the Road Commission makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Commission must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Commission to establish a larger accounting staff in order to implement proper segregation of duties.

Effect

As a result of this condition, the Road Commission is exposed to an increased risk that misstatements and misappropriation of assets (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

Recommendation

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

Management's Response

Due to the budgetary constraints, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Commission's assets. To the extent possible, duties are allocated between the Director of Finance & Benefits and the accounts payable clerk to mitigate risk of financial reporting misstatement and material misappropriation of assets.