

SAGINAW COUNTY ROAD COMMISSION
Saginaw, Michigan

Financial Statements
December 31, 2013



**Gardner | Provenzano
Thomas & Luplow**

CERTIFIED PUBLIC ACCOUNTANTS

Contents

	<u>Page Number</u>
Independent Auditor's Report	
Management's Discussion and Analysis	1
Basic Financial Statements	10
Financial Statements	
Statement of Net Position and Governmental Fund Balance Sheet	11
Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities	12
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	14
Notes to Financial Statements	15
Required Supplemental Information	30
Budgetary Comparison Schedule	31
Additional Supplemental Information	32
Analysis of Revenues, Expenditures, and Changes in Fund Balance	33
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 <i>Government Auditing Standards</i>	35
Schedule of Findings and Questioned Costs	37
Prior Year Schedule of Findings and Questioned Costs	38



INDEPENDENT AUDITOR'S REPORT

April 2, 2014

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, 2013, 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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Analysis of Revenues, Expenditures, and Changes in Fund Balance is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Analysis of Revenues, Expenditures, and Changes in Fund Balance is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Analysis of Revenues, Expenditures, and Changes in Fund Balance 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 2, 2014 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, Provenzano, Thomas & 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, 2013

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, 2013. 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, 2013

GOVERNMENT-WIDE STATEMENTS

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

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

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

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

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Operating/Road Fund).

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2013

GOVERNMENTAL FUNDS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

SAGINAW COUNTY ROAD COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED DECEMBER 31, 2013

CONDENSED FINANCIAL STATEMENTS

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

Condensed Statement of Net Position

Assets	2013	2012
Current	\$ 6,527,970	\$ 6,643,922
Long-term	162,159,481	162,132,970
Total Assets	\$ 168,687,451	\$ 168,776,892
Liabilities and Deferred Inflows		
Current	\$ 921,759	\$ 545,323
Long-term liabilities	4,927,646	4,146,754
Total Liabilities and Deferred Inflows	\$ 5,849,405	\$ 4,692,077
Net Position		
Restricted for County Roads	\$ 2,296,390	\$ 3,099,733
Net invested in capital assets	160,541,656	160,985,082
Total Net Position	\$ 162,838,046	\$ 164,084,815

Condensed Statement of Activities

Revenue	2013	2012
Federal and State Revenue	\$ 16,778,338	\$ 16,236,653
Contributions from Local units	2,016,589	2,341,073
Other, including charges for services	969,680	1,701,460
Total Revenue	19,764,607	20,279,186
Expenses		
Primary preventive/routine maintenance	4,121,544	5,356,500
Local preventive/routine maintenance	6,631,360	6,399,390
Depreciation	8,414,367	8,405,056
Administrative	687,235	755,226
Other	1,156,870	1,356,822
Total Expenses	21,011,376	22,272,994
Change In Net Position	\$ (1,246,769)	\$ (1,993,808)

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2013

NET POSITION

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

The total net position decreased by \$1,246,769 during the year ending December 31, 2013. The largest portion of that decrease was restricted for county roads in the amount of \$803,343. Net investment in capital assets decreased by \$443,426.

Revenue decreased by \$514,579 from 2012. Though increases and decreases were in many different categories, the most significant decrease was in private contributions.

Expenses increased by \$1,261,618 from 2012. The most significant increase was primary preventive/routine maintenance.

THE ROAD COMMISSION'S FUND

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

During the year ending December 31, 2013, the general fund balance decreased by \$541,139 or 9% of the beginning general fund balance. We had planned for a decrease in fund balance in the amount of \$282,858. The variance is mostly attributable to a harsh month of December for winter maintenance 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, 2013

ORIGINAL BUDGET VERSUS AMENDED BUDGET

The 2013 budget was adopted in December 2012. The budget is reviewed periodically and amended as information becomes available or management's plans change. In December 2012, management budgeted for many primary projects, including Federal and State funded projects to be completed during FY2013.

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

- Federal revenue decreased by \$3,585,611, while the State revenue increased by \$600,000. The Federal revenue decrease is mainly due to the Fergus Road Bridge and Treanor Road projects being pushed to the fiscal year 2014. The State revenue increase is a per gallon fuel based revenue so that generally varies.
- Township revenue increased by \$651,500 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.
- Other revenue decreased by \$462,950, mainly due the decision not to bond two local paving projects.
- Preservation/structural improvements decreased by \$3,970,301, for the same reasons as federal revenue decreased: several projects were pushed to fiscal year 2014.

AMENDED BUDGET VERSUS ACTUAL

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

- Federal revenue was under the final budget by \$3,951,274. This was the result of several factors. The first was the expectation of \$988,000 of federal funds being converted to make a payment on a state infrastructure loan. This didn't happen until 2014. The bulk of the variance is due to the Frost Road Bridge being budgeted as federal revenue, but in reality it came from the state critical bridge fund.
- State revenue was over the final budget by \$2,836,206, due to the Frost Road Bridge project being budgeted as federal revenue. In reality, the funding came from a state source.

SAGINAW COUNTY ROAD COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED DECEMBER 31, 2013

AMENDED BUDGET VERSUS ACTUAL (continued)

- Preservation/structural improvements were less than the final budget by \$574,229. This was due to conservative budgeting. We had a contingency rolled in for unexpected items and it wasn't needed.
- Preventive/routine maintenance was greater than the budget by \$902,287 mainly due to the month of December with greater than normal snow and ice.
- Equipment-net was less than the final budget by \$263,744 mainly due to depreciation expenses associated in the direct category.
- Debt service was \$988,000 less than the final budget due to the delay of federal funds being not being converted to a payment on a state infrastructure loan until fiscal year 2014.

CAPITAL ASSETS

SCRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$161,689,544, which is a decrease of \$443,426. This information, which includes infrastructure, is summarized below.

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 39,524,800	\$ 39,463,252
Buildings and improvements	2,954,033	2,907,612
Road equipment	15,944,611	15,471,210
Other equipment	1,296,173	1,247,472
Infrastructure assets	<u>267,430,606</u>	<u>259,086,406</u>
Total Capital Assets	327,150,223	318,175,952
Accumulated Depreciation	<u>(165,460,679)</u>	<u>(156,042,982)</u>
Net Capital Assets	<u>\$ 161,689,544</u>	<u>\$ 162,132,970</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 \$573,739, a state infrastructure loan in the amount of \$1,147,888 and Net OPEB obligation of \$3,206,019. More details of SCRC long-term debt is presented in the notes to the financial statements.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2013

OTHER

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

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

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

BASIC FINANCIAL STATEMENTS

SAGINAW COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2013

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 140,559	\$ -	\$ 140,559
Investment	3,220,811	-	3,220,811
Accounts Receivable			
Michigan Transportation Department	2,009,038	-	2,009,038
Sundry	186,347	-	186,347
Cities, Townships and Villages	202,757	-	202,757
Interest	4,346	-	4,346
Special assessments-current portion	48,750		48,750
Inventories			
Equipment materials and parts	174,645	-	174,645
Road materials	71,241	-	71,241
Prepays	469,476	-	469,476
Long-term assets			
Special assessments-due in more than one year	469,937	-	469,937
Capital assets, net of accumulated depreciation	-	161,689,544	161,689,544
Total Assets	<u>\$ 6,997,907</u>	<u>\$ 161,689,544</u>	<u>\$ 168,687,451</u>
LIABILITIES AND DEFERRED INFLOWS			
Accounts payable	\$ 575,980	\$ -	\$ 575,980
Accrued liabilities	150,780	-	150,780
Other liabilities	192,139	-	192,139
Permits paid in advance	2,860	-	2,860
Long-term liabilities			
State infrastructure bank loan	-	1,147,888	1,147,888
Compensated absences-due in more than one year	-	573,739	573,739
Net OPEB obligation	-	3,206,019	3,206,019
Total Liabilities	<u>921,759</u>	<u>4,927,646</u>	<u>5,849,405</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable special assessments	518,687	(518,687)	-
Total deferred inflow of resources	<u>518,687</u>	<u>(518,687)</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>1,440,446</u>	<u>4,408,959</u>	<u>5,849,405</u>
FUND BALANCE/NET POSITION			
Fund Balances:			
Nonspendable	715,362	(715,362)	-
Committed	149,560	(149,560)	-
Restricted for County Roads	4,692,539	(4,692,539)	-
Total Fund Balance	<u>5,557,461</u>	<u>(5,557,461)</u>	<u>-</u>
Total Liabilities, Deferred inflows of resources and Fund Balance	<u>\$ 6,997,907</u>		
Net Position:			
Invested in capital assets		160,541,656	160,541,656
Restricted for County Roads		2,296,390	2,296,390
Total Net Position		<u>\$ 162,838,046</u>	<u>\$ 162,838,046</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, 2013

Total governmental fund balance	\$ 5,557,461
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	161,689,544
Long-term receivables are not deemed measurable and available and therefore not reported in the governmental fund.	518,687
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.	(4,927,646)
Net Position of Governmental Activities	<u>\$ 162,838,046</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, 2013

	General Fund	Adjustments	Statement of Activities
Revenue			
Federal	\$ 1,332,132	\$ -	\$ 1,332,132
State	15,446,206	-	15,446,206
County			
City and Villages	18,104	-	18,104
Township	1,950,755	-	1,950,755
Other government	47,730	-	47,730
Interest	14,422	-	14,422
Charge for services	100,298	-	100,298
Gain on disposal	23,731	-	23,731
Other revenue	202,069	-	202,069
Special assessment	-	518,687	518,687
Private source contributions	110,473	-	110,473
Total Revenue	<u>19,245,920</u>	<u>518,687</u>	<u>19,764,607</u>
Expenditures/expense			
Primary construction/capacity improvements	30,118	(30,118)	-
Primary preservation/structural improvements	5,553,431	(5,553,431)	-
Primary preventive/routine maintenance	4,121,544	-	4,121,544
Local construction/capacity improvements	50,870	(50,870)	-
Local preservation/structural improvements	2,771,329	(2,771,329)	-
Local preventive/routine maintenance	6,631,360	-	6,631,360
Administrative	705,045	(17,810)	687,235
Net equipment expense	171,283	-	171,283
Net capital outlay			
Capital outlay	664,535	(664,535)	-
Depreciation credits	(1,099,342)	1,099,342	-
Infrastructure Depreciation	-	8,414,367	8,414,367
Drain assessment	120,376	-	120,376
Other Non-road	66,509	-	66,509
OPEB benefits	-	798,702	798,702
Total Expenditures/expense	<u>19,787,058</u>	<u>1,224,318</u>	<u>21,011,376</u>
Net Change in Fund Balance/Net Position	(541,138)	(705,631)	(1,246,769)
Fund Balance/Net Position - Beginning of Year	6,098,599	157,986,216	164,084,815
Fund Balance/Net Position - End of Year	<u>\$ 5,557,461</u>	<u>\$ 157,280,585</u>	<u>\$ 162,838,046</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, 2013

Net Change in fund balance--total governmental fund	\$ (541,138)
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	9,070,283
Depreciation	(9,513,709)
Some revenues reported in the statement of activities are not considered to be current resources and therefore are not reported as revenue in the governmental funds.	
Long-term special assessment	518,687
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.	
	(798,702)
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.	
Compensated absences	17,810
Change in net position of governmental activities	<u>\$ (1,246,769)</u>

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.

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.

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

Deposits

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

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, 2013, \$149,560 was committed in the 2014 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, 2013.

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 unavailable special assessments, is reported in the governmental funds balance sheet and the statement of net position. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

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	\$ 172,695	\$ -	\$ -	\$ 172,695	\$ 140,177
Investment held by County	-	-	3,220,811	3,220,811	3,220,811
Cash on hand	-	-	382	-	382
Totals	<u>\$ 172,695</u>	<u>\$ -</u>	<u>\$ 3,221,193</u>	<u>\$ 3,393,506</u>	<u>\$ 3,361,370</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 12/31/2012	Additions	Retirements	Balance 12/31/2013
Capital Assets Not Being Depreciated				
Land	\$ 558,635	\$ -	\$ -	\$ 558,635
Land and improvements, infrastructure	38,904,617	61,548	-	38,966,165
Total Land and Improvements	<u>39,463,252</u>	<u>61,548</u>	<u>-</u>	<u>39,524,800</u>
Other Capital Assets				
Land Improvements	450,231	-	-	450,231
Depletable Assets	42,008	-	-	42,008
Buildings	2,415,373	46,421	-	2,461,794
Road equipment	15,471,210	569,413	96,012	15,944,611
Shop equipment	138,788	-	-	138,788
Engineers equipment	248,608	-	-	248,608
Yard and storage equipment	5,646	2,595	-	8,241
Office equipment	854,430	46,106	-	900,536
Infrastructure and improvements	259,086,406	8,344,200	-	267,430,606
Total Other Capital Assets	<u>278,712,700</u>	<u>9,008,735</u>	<u>96,012</u>	<u>287,625,423</u>
Total Capital Assets	<u>318,175,952</u>	<u>9,070,283</u>	<u>96,012</u>	<u>327,150,223</u>
Accumulated Depreciation				
Land Improvements	418,771	5,410	-	424,181
Depletable Assets	3,914	-	-	3,914
Buildings	1,864,259	59,790	-	1,924,049
Road equipment	12,932,366	974,314	96,012	13,810,668
Shop equipment	132,653	1,956	-	134,609
Engineers equipment	135,708	4,187	-	139,895
Yard and storage equipment	5,646	43	-	5,689
Office equipment	768,380	53,642	-	822,022
Infrastructure and improvements	139,781,285	8,414,367	-	148,195,652
Total Accumulated Depreciation	<u>156,042,982</u>	<u>9,513,709</u>	<u>96,012</u>	<u>165,460,679</u>
Total Net Capital Assets	<u>\$ 162,132,970</u>	<u>\$ (443,426)</u>	<u>\$ -</u>	<u>\$ 161,689,544</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, 2013.

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, 2013 is \$339,035. Additionally, up to twenty days vacation may be carried over to a succeeding year, subject to certain restrictions. Accumulated vacation payable at December 31, 2013 is \$234,704.

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, 2013:

	Balance 1/1/2013	Increase	Reduction	Balance 12/31/2013	Due Within One year
Compensated absences	\$ 591,549	\$ 66,431	\$ 84,241	\$ 573,739	\$ -
SIB Loan	<u>1,147,888</u>	-	-	<u>1,147,888</u>	<u>925,463</u>
Total	<u>\$ 1,739,437</u>	<u>\$ 66,431</u>	<u>\$ 84,241</u>	<u>\$ 1,721,627</u>	<u>\$ 925,463</u>

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

	Principal	Interest	Total
2014	\$ 925,463	\$ 49,695	\$ 975,158
2015	222,425	6,673	229,098
Compensated absences	<u>573,739</u>	-	<u>573,739</u>
	<u>\$ 1,721,627</u>	<u>\$ 56,368</u>	<u>\$ 1,777,995</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, 2013, the Road Commission's annual pension cost and required contribution was \$456,603. The required contribution was determined as part of the December 31, 2011, 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
12/31/2011	\$ 346,311	100%	\$ -
12/31/2012	\$ 386,130	100%	\$ -
12/31/2013	\$ 456,603	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)
12/31/2010	\$ 24,385,884	\$ 26,498,544	\$ 2,112,660	92%	\$3,418,831	41%
12/31/2011	\$ 24,317,610	\$ 27,452,863	\$ 3,135,253	89%	\$3,404,013	62%
12/31/2012	\$ 24,145,397	\$ 28,534,731	\$ 4,389,334	85%	\$3,336,606	132%

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 is self-insured for short term disability.

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, 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, 2013, approximately \$700,302 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)	\$ 1,550,396
Interest on Net OPEB obligation	96,293
Less adjustments to ARC	<u>(147,685)</u>
Annual OPEB cost	1,499,004
Amounts contributed:	
Payments of current premiums	(700,302)
Advanced funding	<u>-</u>
Increase (decrease) in net OPEB obligation	798,702
OPEB obligation beginning of the year	<u>2,407,317</u>
OPEB obligation end of the year	<u><u>\$ 3,206,019</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>
12/31/2011	\$ 1,539,457	51%	\$ 1,696,066
12/31/2012	\$ 1,546,829	54%	\$ 2,407,317
12/31/2013	\$ 1,499,004	47%	\$ 3,206,019

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%

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, 2013, the Federal aid received and expended by the Road Commission was \$1,255,643 for contracted projects and \$74,389 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. The remaining federal revenue in the amount of \$2,100 is Medicare D reimbursements.

NOTE 11--SUBSEQUENT EVENTS

The financial statements and related disclosure include evaluation of events up through and including April 2, 2014, 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, 2013

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Federal	\$ 8,869,017	\$ 5,283,406	\$ 1,332,132	\$ (3,951,274)
State	12,010,000	12,610,000	15,446,206	2,836,206
County				
City and Villages	40,000	40,000	18,104	(21,896)
Township	1,348,500	2,000,000	1,950,755	(49,245)
Other government	10,000	10,000	47,730	37,730
Interest	18,000	16,000	14,422	(1,578)
Charge for services	70,000	100,000	100,298	298
Gain on disposal of capital assets	46,000	7,231	23,731	16,500
Other revenue	720,250	257,300	202,069	(55,231)
Private source contributions	-	-	110,473	110,473
Total Revenue	<u>23,131,767</u>	<u>20,323,937</u>	<u>19,245,920</u>	<u>(1,078,017)</u>
Expenditures				
Construction/capacity improvements	-	15,951	80,988	(65,037)
Preservation/structural improvements	12,869,290	8,898,989	8,324,760	574,229
Preventive/routine maintenance	9,813,529	9,850,617	10,752,904	(902,287)
Administration	730,000	761,930	705,045	56,885
Capital Outlay-net	(364,200)	(537,375)	(434,807)	(102,568)
Equipment-net	301,530	435,027	171,283	263,744
Drain assessment	120,400	120,400	120,376	24
Other	45,922	73,256	66,509	6,747
Debt service	988,000	988,000	-	988,000
Total Expenditures	<u>24,504,471</u>	<u>20,606,795</u>	<u>19,787,058</u>	<u>819,737</u>
 Change in Fund Balance	 (1,372,704)	 (282,858)	 (541,138)	 (258,280)
Fund Balance, Beginning of Year	6,098,599	6,098,599	6,098,599	-
 Fund Balance, End of Period	 <u>\$ 4,725,895</u>	 <u>\$ 5,815,741</u>	 <u>\$ 5,557,461</u>	 <u>\$ (258,280)</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, 2013

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Revenues				
Federal				
Surface transportation program	\$ 1,106,487	\$ -	\$ -	\$ 1,106,487
Federal D funds	18,291	-	-	18,291
Bridge	191,019	-	-	191,019
Other	14,235	-	2,100	16,335
Total Federal	<u>1,330,032</u>	<u>-</u>	<u>2,100</u>	<u>1,332,132</u>
State				
Engineering	6,667	3,333	-	10,000
Urban road	1,088,007	560,236	-	1,648,243
Allocation	7,300,903	3,649,180	-	10,950,083
Local bridge	2,520,557	-	-	2,520,557
Other	317,323	-	-	317,323
Total State	<u>11,233,457</u>	<u>4,212,749</u>	<u>-</u>	<u>15,446,206</u>
County				
City and villages	-	-	18,104	18,104
Township	-	1,950,755	-	1,950,755
Other government	-	-	47,730	47,730
Total County	<u>-</u>	<u>1,950,755</u>	<u>65,834</u>	<u>2,016,589</u>
Other				
Interest and rents	1,997	4,460	7,965	14,422
Special assessments	-	177,553	-	177,553
Charges for services	10,030	65,194	25,074	100,298
Gain (loss) equipment disposals	4,509	5,695	13,527	23,731
Sundry refunds	3,147	3,147	3,423	9,717
Other	-	-	14,799	14,799
Private source contributions	-	50,870	59,603	110,473
Total Other	<u>19,683</u>	<u>306,919</u>	<u>124,391</u>	<u>450,993</u>
Total Revenues	<u>\$ 12,583,172</u>	<u>\$ 6,470,423</u>	<u>\$ 192,325</u>	<u>\$ 19,245,920</u>

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Expenditures				
Construction/capacity improvements	\$ 30,118	\$ 50,870	\$ -	\$ 80,988
Preservation/structural improvements	5,553,431	2,771,329	-	8,324,760
Preventive/routine maintenance	4,121,544	6,631,360	-	10,752,904
Other				
Administration	357,151	347,894	-	705,045
Equipment	1,270,696	2,303,380	112,617	3,686,693
Less: equipment rental	(1,211,660)	(2,196,365)	(107,385)	(3,515,410)
Capital outlay	265,814	265,814	132,907	664,535
Less: depreciation credits and retirements	(208,875)	(263,842)	(626,625)	(1,099,342)
Drain assessment	30,094	90,282	-	120,376
Other Non-road	-	-	66,509	66,509
Total Other	<u>503,220</u>	<u>547,163</u>	<u>(421,977)</u>	<u>628,406</u>
Total Expenditures	<u>10,208,313</u>	<u>10,000,722</u>	<u>(421,977)</u>	<u>19,787,058</u>
Excess of revenue over (under) expenditures	2,374,859	(3,530,299)	614,302	(541,138)
Other financing sources (uses)				
Optional transfer	(3,000,000)	3,000,000	-	-
Fund Balance, Beginning	844,360	1,886,011	3,368,228	6,098,599
Fund Balance, Ending	<u>\$ 219,219</u>	<u>\$ 1,355,712</u>	<u>\$ 3,982,530</u>	<u>\$ 5,557,461</u>



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

April 2, 2014

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, 2013, 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 2, 2014.

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.

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. 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. 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.

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 & Duplax, P.C.

Certified Public Accountants

SAGINAW COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Audit Findings

None

SAGINAW COUNTY ROAD COMMISSION
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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.

Current Status

Corrective active was taken. No similar finding in the 2013 audit.