



SAGINAW COUNTY ROAD COMMISSION
Saginaw, Michigan

FINANCIAL STATEMENTS
December 31, 2018



**Gardner | Provenzano
Thomas & Luplow**

CERTIFIED PUBLIC ACCOUNTANTS

Saginaw County Road Commission
Table of Contents

	<u>Page Number</u>
Independent Auditor's Report	
Management's Discussion and Analysis	1
Basic Financial Statements	9
Statement of Net Position and Governmental Fund Balance Sheet	10
Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities	11
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	13
Notes to Financial Statements	14
Required Supplemental Information	38
Budgetary Comparison Schedule	39
Schedule of Changes in Net Pension Liability and Related Ratios - Pension	40
Schedule of Employer Contributions - Pension	41
Schedule of Changes in Net OPEB Liability and Related Ratios	42
Schedule of Employer Contributions - OPEB	43
State of Michigan Public Act 530 and 202 Information	44
Schedule of Assumptions-OPEB	45
Schedule of Outflows (Inflows)-OPEB	48
Other Supplemental Information	49
Analysis of Revenues, Expenditures and Changes in Fund Balance	50
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>	52
Schedule of Findings and Questioned Costs	54
Prior Year Schedule of Findings and Questioned Costs	55



INDEPENDENT AUDITOR'S REPORT

**Frederick C. Gardner
Giacomo Provenzano
Heather Thomas-Verhaeghe
Brett A. Luplow**

June 25, 2019

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, 2018, 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, 2018, 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 12 to the financial statements, Saginaw County Road Commission implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019 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, Proronyano, Thomas & Luplow, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018. 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 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, 2018

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.

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, 2018

CONDENSED FINANCIAL STATEMENTS

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

Condensed Statement of Net Position

	2018	Restated 2017
Assets and Deferred Outflows		
Current	\$ 15,149,430	\$ 10,583,599
Long-term	167,258,920	165,479,762
Total Assets	<u>182,408,350</u>	<u>176,063,361</u>
Deferred Outflows of resources	<u>3,596,048</u>	<u>602,895</u>
Liabilities and Deferred Inflows		
Current	1,696,727	962,376
Long-term liabilities	43,680,815	37,906,228
Total Liabilities	<u>45,377,542</u>	<u>38,868,604</u>
Deferred Inflows of resources	<u>221,465</u>	<u>471,841</u>
Net Position		
Restricted for County Roads	(25,294,584)	(25,927,458)
Net invested in capital assets	165,699,975	163,253,269
Total Net Position	<u>\$ 140,405,391</u>	<u>\$ 137,325,811</u>

Condensed Statement of Activities

	2018	2017
Revenue		
Federal and State Revenue	\$ 25,916,026	\$ 19,783,899
County	3,454,129	2,785,330
Other, including charges for services	904,944	1,294,903
Total Revenue	<u>30,275,099</u>	<u>23,864,132</u>
Expenses		
Primary preventive/routine maintenance	5,474,527	5,657,099
Local preventive/routine maintenance	7,447,017	7,196,277
Depreciation	9,060,678	8,897,542
Administrative	1,056,485	835,537
Other	4,156,812	3,113,008
Total Expenses	<u>27,195,519</u>	<u>25,699,463</u>
Change In Net Position	<u>\$ 3,079,580</u>	<u>\$ (1,835,331)</u>

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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 increased by \$3,079,580 during the year ending December 31, 2018. Restricted for county roads increased \$632,874, and net investment in capital assets increased \$2,446,706. The restricted for county roads for both fiscal years 2018 and 2017 is in a negative position due to pension and OPEB related expenses.

Revenue increased by \$6,410,967 from 2017. Though increases and decreases were in many different categories, the most significant increase was in federal and state revenue due to various funding disbursements.

Expenses increased by \$1,496,056 from 2017. The most significant increase was in other and was most attributable to pension and OPEB related expenses.

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, 2018, the general fund balance increased by \$3,837,026 or 40% of the beginning general fund balance. We had planned for an increase in fund balance in the amount of \$4,407,400. Management does not believe the overall variance of \$570,374 is significant.

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

BUDGET

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

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2018

ORIGINAL BUDGET VERSUS AMENDED BUDGET

The 2018 budget was adopted in December 2017. 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 \$2,520,500 due to Fergus Road and Swan Creek Road projects pushed to the 2019 fiscal year.
- State revenue increased by \$5,153,500. MTF funds were \$1.25 million more than the original budget projected. In addition, there was an additional \$3.6 million in State funding that was not known about when the original budget was adopted.
- Preservation/structural improvements was decreased \$5,323,299 due to the two projects mentioned above postponed until 2019 as mentioned above.
- Preventive/routine maintenance increased by \$2,288,437, due to Township work request greater than the original budget.

AMENDED BUDGET VERSUS ACTUAL

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

- State revenue actual results were \$1,356,483 lower than the final budget due to \$1,135,000 in earmarked revenue reclassified to deferred revenue. This reclassification was made due to the earmarked projects not started in the 2018 fiscal year. Funds will be removed from deferred revenue and placed into revenue in the year the expenditures for the projects occur.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2018

CAPITAL ASSETS

SCRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$167,043,138 which is an increase of \$1,843,465. This information, which includes infrastructure, is summarized below.

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 40,223,566	\$ 40,223,566
Buildings and improvements	4,371,791	4,018,245
Road equipment	18,304,810	17,554,655
Other equipment	1,060,775	846,707
Infrastructure assets	<u>313,607,512</u>	<u>303,493,406</u>
Total Capital Assets	377,568,454	366,136,579
Accumulated Depreciation	<u>(210,525,316)</u>	<u>(200,936,906)</u>
Net Capital Assets	<u>\$ 167,043,138</u>	<u>\$ 165,199,673</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 \$646,881, a Michigan Transportation note in the amount of \$800,000, equipment leases in the amounts of \$47,981, and \$495,182, Net OPEB obligation of \$29,408,908 and Net Pension Liability of 12,281,863. More details of SCRC long-term debt is presented in the notes to the financial statements.

OTHER

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

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

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

BASIC FINANCIAL STATEMENTS

SAGINAW COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2018

	General Fund	Adjustments	Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS			
Cash	\$ 236,211	\$ -	\$ 236,211
Investment	7,472,821	-	7,472,821
Accounts Receivable			
Michigan Transportation Department	2,627,970	-	2,627,970
Other state	1,734,236	-	1,734,236
Due from other governments	1,842,045	-	1,842,045
Other receivables	62,363	-	62,363
Special assessments-current portion	54,366	-	54,366
Inventories			
Equipment materials and parts	124,758	-	124,758
Road materials	696,179	-	696,179
Prepays	298,481	-	298,481
Long-term assets			
Special assessments-due in more than one year	215,782	-	215,782
Capital assets, net of accumulated depreciation	-	167,043,138	167,043,138
Total Assets	<u>15,365,212</u>	<u>167,043,138</u>	<u>182,408,350</u>
Deferred outflows of resources-pension	-	1,662,941	1,662,941
Deferred outflows of resources-OPEB	-	1,933,107	1,933,107
Total Deferred Outflows	-	<u>3,596,048</u>	<u>3,596,048</u>
Total Assets and Deferred Outflows	<u>\$ 15,365,212</u>	<u>170,639,186</u>	<u>186,004,398</u>
LIABILITIES AND DEFERRED INFLOWS			
Accounts payable	\$ 169,989	-	169,989
Accrued liabilities	202,689	-	202,689
Other liabilities	189,049	-	189,049
Unearned revenue	1,135,000	-	1,135,000
Long-term liabilities			
Equipment leases	-	543,163	543,163
Michigan transportation note	-	800,000	800,000
Compensated absences	-	646,881	646,881
Net pension liability	-	12,281,863	12,281,863
Net OPEB obligation	-	29,408,908	29,408,908
Total Liabilities	<u>1,696,727</u>	<u>43,680,815</u>	<u>45,377,542</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable special assessments	270,148	(270,148)	-
Deferred inflows of resources-pension	-	221,465	221,465
Total Deferred Inflow of Resources	<u>270,148</u>	<u>(48,683)</u>	<u>221,465</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,966,875</u>	<u>43,632,132</u>	<u>45,599,007</u>
FUND BALANCE/NET POSITION			
Fund Balances:			
Nonspendable	1,119,418	(1,119,418)	-
Committed	2,678,386	(2,678,386)	-
Restricted for County Roads	9,600,533	(9,600,533)	-
Total Fund Balance	<u>13,398,337</u>	<u>(13,398,337)</u>	<u>-</u>
Total Liabilities, Deferred inflows of resources and Fund Balance	<u>\$ 15,365,212</u>		
Net Position:			
Invested in capital assets		165,699,975	165,699,975
Restricted for County Roads		(25,294,584)	(25,294,584)
Total Net Position		<u>\$ 140,405,391</u>	<u>\$ 140,405,391</u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018

Total governmental fund balance	\$ 13,398,337
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	167,043,138
Long-term receivables are not deemed measurable and available and therefore not reported in the governmental fund.	270,148
Deferred outflows related to the net pension liability are not recognized at the fund level	1,662,941
Deferred outflows related to the OPEB liability are not recognized at the fund level	1,933,107
Deferred inflows related to the net pension liability are not recognized at the fund level	(221,465)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.	<u>(43,680,815)</u>
Net Position of Governmental Activities	<u><u>\$ 140,405,391</u></u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Adjustments	Statement of Activities
Revenue			
Federal	\$ 3,270,009	\$ -	\$ 3,270,009
State	22,646,017	-	22,646,017
County	3,454,129	-	3,454,129
Interest	39,794	-	39,794
Charge for services	117,518	-	117,518
Other revenue	817,484	(69,852)	747,632
Total Revenue	<u>30,344,951</u>	<u>(69,852)</u>	<u>30,275,099</u>
Expenditures/expense			
Primary construction/capacity improvements	240,852	(240,852)	-
Primary preservation/structural improvements	3,779,023	(3,779,023)	-
Primary preventive/routine maintenance	5,474,527	-	5,474,527
Local preservation/structural improvements	6,094,231	(6,094,231)	-
Local preventive/routine maintenance	7,447,017	-	7,447,017
Administrative	1,078,942	(22,457)	1,056,485
Net equipment expense	694,276	-	694,276
Net capital outlay			
Capital outlay	2,162,184	(2,162,184)	-
Depreciation credits	(1,372,148)	1,371,990	(158)
Debt service	642,186	(603,241)	38,945
Infrastructure Depreciation	-	9,060,836	9,060,836
Other Non-road	266,835	-	266,835
Pension related expense-deferred outflows	-	(1,060,046)	(1,060,046)
Pension related expense-deferred inflows	-	(250,376)	(250,376)
Pension NPO changes	-	2,443,568	2,443,568
OPEB related benefits-deferred outflows	-	(1,933,107)	(1,933,107)
OPEB benefits	-	3,956,717	3,956,717
Total Expenditures/expense	<u>26,507,925</u>	<u>687,594</u>	<u>27,195,519</u>
Change in Fund Balance	3,837,026	(3,837,026)	-
Change in net position		3,079,580	3,079,580
Fund Balance- Beginning of Year	9,561,311	(9,561,311)	-
Net Position - Beginning of Year-restated	-	137,325,811	137,325,811
Fund Balance/Net Position - End of Year	<u>\$ 13,398,337</u>	<u>\$ 127,007,054</u>	<u>\$ 140,405,391</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, 2018

Net Change in fund balance--total governmental fund \$ 3,837,026

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Equipment retirements are recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.

Capital outlay	12,276,290
Depreciation	(10,432,825)

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-principal payments	(69,853)
---	----------

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

Change in OPEB	(3,956,717)
----------------	-------------

Expenses related to the net pension liability are not reported in the governmental funds

(1,133,146)

Expenses related to the OPEB are not reported in the governmental funds

1,933,107

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Principal payments on debt

603,241

Compensated absences

22,457

Change in net position of governmental activities

<u>\$ 3,079,580</u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Government-Wide Statements and Fund Financial Statements

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the SCRC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or soon thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

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

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

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

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

2. **Inventories**

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

3. **Prepaid Expenses**

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

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

4. Capital Assets and Depreciation

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

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

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

5. Liabilities

Accounts Payable

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

Accrued Expenses

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

Other Liabilities

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

Compensated Absences

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

Due to State of Michigan

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

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

6. Fund Balance Classifications

The Road Commission classifies its fund balances as follows:

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority. At December 31, 2018, \$2,678,386 was committed in the 2019 budget to spend down fund balance.

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

7. Deferred outflows/inflows of resources

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

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

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

8. Net position flow assumption

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

9. Fund balance flow assumptions

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

E. Budgets and Budgetary Accounting

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

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

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

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

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

NOTE 2--CASH AND INVESTMENTS

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

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

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

Interest Rate Risk

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

Credit Risk

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

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 2--CASH AND INVESTMENTS (continued)

Custodial Investment Credit Risk

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

Custodial Deposit Credit Risk

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

	<u>Insured</u>	<u>Collateralized</u>	<u>Uninsured Uncollateralized</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$ 250,000	\$ -	\$ 405,880	\$ 655,880	\$ 235,829
Investment held by County	-	-	7,472,821	7,472,821	7,472,821
Cash on hand	-	-	382	-	382
Totals	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 7,879,083</u>	<u>\$ 8,128,701</u>	<u>\$ 7,709,032</u>

NOTE 3--UNEMPLOYMENT COMPENSATION

The Road Commission is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Road Commission must reimburse the Michigan Employment Security Commission for all benefits charged against the Road Commission. The amount of expenditures for unemployment for the year ended December 31, 2018 was \$0.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 4--CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the year are as follows:

Governmental Activities	Balance 12/31/2017	Adjustments Additions	Adjustments Retirements	Balance 12/31/2018
Capital Assets Not Being Depreciated				
Land	\$ 558,635	\$ -	\$ -	\$ 558,635
Land and improvements, infrastructure	39,664,931	-	-	39,664,931
Total Land and Improvements	<u>40,223,566</u>	<u>-</u>	<u>-</u>	<u>40,223,566</u>
Other Capital Assets				
Land Improvements	460,211	26,177	-	486,388
Depletable Assets	35,013	-	-	35,013
Buildings	3,523,021	327,369	-	3,850,390
Road equipment	17,554,655	1,594,570	844,415	18,304,810
Shop equipment	185,521	99,513	-	285,034
Engineers equipment	123,267	18,340	-	141,607
Office equipment	537,919	96,215	-	634,134
Infrastructure and improvements	303,493,406	10,114,106	-	313,607,512
Total Other Capital Assets	<u>325,913,013</u>	<u>12,276,290</u>	<u>844,415</u>	<u>337,344,888</u>
Total Capital Assets	<u>366,136,579</u>	<u>12,276,290</u>	<u>844,415</u>	<u>377,568,454</u>
Accumulated Depreciation				
Land Improvements	443,957	7,089	-	451,046
Depletable Assets	3,914	-	-	3,914
Buildings	2,040,027	166,629	-	2,206,656
Road equipment	14,957,748	1,136,874	844,415	15,250,207
Shop equipment	145,190	7,647	-	152,837
Engineers equipment	101,399	4,856	-	106,255
Office equipment	386,525	48,894	-	435,419
Infrastructure and improvements	182,858,146	9,060,836	-	191,918,982
Total Accumulated Depreciation	<u>200,936,906</u>	<u>10,432,825</u>	<u>844,415</u>	<u>210,525,316</u>
Total Net Capital Assets	<u>\$ 165,199,673</u>	<u>\$ 1,843,465</u>	<u>\$ -</u>	<u>\$ 167,043,138</u>

NOTE 5--LONG-TERM LIABILITIES

Accrued Sick and Vacation

The Road Commission pays 65% of accrued unused sick leave at retirement. The amount due at December 31, 2018 is \$389,234. Additionally, up to twenty days vacation may be carried over to a succeeding year, subject to certain restrictions. Accumulated vacation payable at December 31, 2018 is \$257,647.

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

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

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

Equipment Leases

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

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

During the year ended December 31, 2018, the Road Commission entered into an equipment lease for a motor grader and wheel loader. Seven lease payments in the amount of \$91,258 including principal and interest are due annually through 2024. Interest is set at 2.95%.

Following is a summary of long term liabilities for the year ended December 31, 2018:

	Balance 1/1/2018	Increase	Reduction	Adjustments	Balance 12/31/2018	Due Within One year
Compensated absences	\$ 669,338	\$ 3,645	\$ 26,102	\$ -	\$ 646,881	\$ -
Equipment lease	76,299	-	75,004	1,295	-	-
Equipment lease	94,467	-	46,486	-	47,981	47,981
Equipment lease	575,638	-	80,456	-	495,182	76,650
Michigan Transportation Note	1,200,000	-	400,000	-	800,000	400,000
Total	<u>\$ 2,615,742</u>	<u>\$ 3,645</u>	<u>\$ 628,048</u>	<u>\$ 1,295</u>	<u>\$ 1,990,044</u>	<u>\$ 524,631</u>

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

	Principal	Interest	Total
2019	\$ 524,631	\$ 33,751	\$ 558,382
2020	478,911	20,623	499,534
2021	81,239	10,019	91,258
2022	83,636	7,622	91,258
2023	86,103	5,155	91,258
2024	88,643	7,770	96,413
Compensated absences	646,881	2,615	649,496
	<u>\$ 1,990,044</u>	<u>\$ 87,555</u>	<u>\$ 2,077,599</u>

NOTE 6-- DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

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

Plan Description

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

Employees Covered by the Benefit Term

At the December 31, 2017 measurement date the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	104
Inactive plan members entitled to but not yet receiving benefits	7
Active employees	<u>71</u>
Total employees covered by MERS	<u>182</u>

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

Benefits Provided

01-Union: Closed to New Hires, linked to Division 15	<u>2017 Valuation</u>	10-Managers: Closed to New Hires, linked to Division 14	<u>2017 Valuation</u>
Benefit Multiple:	2.50% Multiplier (80% max)	Benefit Multiple:	2.50% Multiplier (80% max)
Normal Retirement Age:	60	Normal Retirement Age:	60
Vesting:	10 Years	Vesting:	6 Years
Early Retirement (Unreduced):	55/25	Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25	Early Retirement (Reduced):	20 and out
	55/15	Early Retirement (Reduced):	-
Final Average Compensation:	5 Years	Final Average Compensation:	3 Years
Employee Contributions	4.70%	COLA for Future Retirees:	2.50% (Non-Compound)
Act 88:	Yes (Adopted 12/22/1966)	Employee Contributions	4.70%
		Act 88:	Yes (Adopted 12/22/1966)
11-Commissioners: Closed to New Hires	<u>2017 Valuation</u>	12-Non-Union: Closed to new hires linked to Division 13,	<u>2017 Valuation</u>
Benefit Multiple:	2.50% Multiplier (80% max)	Benefit Multiple:	2.50% Multiplier (80% max)
Normal Retirement Age:	60	Normal Retirement Age:	60
Vesting:	6 Years	Vesting:	10 Years
Early Retirement (Unreduced):	55/15	Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25	Early Retirement (Reduced):	50/25
Final Average Compensation:	5 Years	Early Retirement (Reduced):	55/15
Employee Contributions	4.00%	Final Average Compensation:	5 Years
Act 88:	Yes (Adopted 12/22/1966)	Employee Contributions	4.70%
		Act 88:	Yes (Adopted 12/22/1966)
13-Non-Union New Hires after 01/01/12 Open Division, linked to Division 12	<u>2017 Valuation</u>	14- Manager New Hires after 01/01/12 Open Division, linked to Division 10	<u>2017 Valuation</u>
Benefit Multiple:	1.50% (no max.)	Benefit Multiple:	1.50% (no max.)
Normal Retirement Age:	60	Normal Retirement Age:	60
Vesting:	10 Years	Vesting:	10 Years
Early Retirement (Unreduced):	-	Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25	Early Retirement (Reduced):	50/25
	55/15	Early Retirement (Reduced):	55/15
Final Average Compensation:	5 Years	Final Average Compensation:	5 Years
Employee Contributions	4.70%	Employee Contributions	4.70%
Act 88:	Yes (Adopted 12/22/1966)	Act 88:	Yes (Adopted 12/22/1966)
15-Union New Hires after 01/01/12 Open Division, linked to Division 01	<u>2017 Valuation</u>		
Benefit Multiple:	1.50% (no max.)		
Normal Retirement Age:	60		
Vesting:	10 Years		
Early Retirement (Unreduced):	-		
Early Retirement (Reduced):	50/25		
	55/15		
Final Average Compensation:	5 Years		
Employee Contributions	4.70%		
Act 88:	Yes (Adopted 12/22/1966)		

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

Contribution Requirements

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

The contribution rates as a percentage of payroll for employee contributions and the flat rate for employer contributions for the year ended December 31, 2018 were as follows:

Division	<u>Employee Contribution</u>	<u>Employer Contribution</u>
01-Union: Closed to New Hires,	4.70%	\$36,071 per month
10-Managers: Closed to New Hires	4.70%	\$20,677 per month
11-Commissioners: Closed to New Hires	4.00%	-
12-Non-Union: Closed to new hires	4.70%	\$8,154 per month
13-Non-Union New Hires after 01/01/12 Open	4.70%	3.03% of wages
14- Manager New Hires after 01/01/12 Open	4.70%	4.35% of wages
15-Union New Hires after 01/01/12 Open	4.70%	6.78% of wages

Net Pension Liability

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

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increase: 3.75% in the long-term

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

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

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions (continued)

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

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

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

Asset Class	Target	Target Allocation	Long-term Expected	Inflation	Target Allocation
	Allocation	Gross Rate of Return	Expected Gross Rate of Return		Real Rate of Return
Global Equity	55.5%	8.65%	4.80%	2.50%	3.41%
Global fixed income	18.5%	3.76%	0.70%	2.50%	0.23%
Real assets	13.5%	9.72%	1.31%	2.50%	0.97%
Diversifying strategies	12.5%	7.50%	0.94%	2.50%	0.63%
Total	100.0%		7.75%		5.25%

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

Net Pension Liability

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

Changes in Net Pension Liability	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2017	\$ 33,525,923	\$ 23,687,628	\$ 9,838,295
Service cost	396,845	-	396,845
Interest	2,606,124	-	2,606,124
Employer contributions	-	898,360	(898,360)
Employee contributions	-	258,535	(258,535)
Net investment income	-	(894,542)	894,542
Benefit payments	(2,295,603)	(2,295,603)	-
Experience changes	(386,610)	-	(386,610)
Administrative expense	-	(45,152)	45,152
Other changes	44,410	-	44,410
Net changes	365,166	(2,078,402)	2,443,568
Balance at December 31, 2018	\$ 33,891,089	\$ 21,609,226	\$ 12,281,863

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

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

	1% Decrease in Rate to (7.00%)	Current Discount Rate 8.00%	1% Increase in Rate to (9.00%)
Net Pension Liability	\$ 15,796,662	\$ 12,281,863	\$ 9,286,124

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

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 6--DEFINED BENEFIT PENSION PLAN (continued)

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

During the year the Road Commission recognized pension expense of \$2,031,506. At year-end, the Road Commission reported deferred outflows and inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 1,662,941	\$ -
Difference in assumptions	-	221,465
Total	\$ 1,662,941	\$ 221,465

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

Year Ending December 31,	Net Amount
2019	\$ 579,255
2020	91,316
2021	222,465
2022	548,440
Total	\$ 1,441,476

Payable to the Pension Plan

At December 31, 2018, there was no reported payable to the pension plan required for the year ended December 31, 2018.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 7--POST-EMPLOYMENT BENEFITS OTHER THAN PENSION

Summary of Significant Accounting Policies

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of Saginaw County Road Commission Other Post-Employment Benefits Plan and additions to/deductions from the Road Commission's fiduciary net position have been determined on the same basis as they are reported by the Saginaw County Road Commission. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Saginaw County Road Commission Other Post-Employment Benefits Plan is a single employer plan established and administered by Saginaw County Road Commission and can be amended at its discretion.

Benefits Provided

Eligibility Requirements

Eligibility requirements vary depending on class of employee. Employees hired on or after December 27, 2011 are no longer eligible for medical, dental or life insurance benefits in retirement.

Summary of Benefits

<u>Cover Life</u>	<u>Medical</u>	<u>HRA</u>	<u>Dental</u>	<u>Life Insurance</u>
Employee	Lifetime	Up to retiree age 65	Lifetime	Range varied depending on class of employee
Spouse	Lifetime	Up to retiree age 65	Lifetime	None
Dependent	Until age 26	Up to retiree age 65	Until age 26	None

Retiree Contribution

Dental premiums, life insurance premiums stipends for retirees opting out of medical coverage are fully paid by the Road Commission.

Union retirees hired on or after February 9, 2004 pay a percentage of their medical premiums based on their service at retirement.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

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

Benefits Provided (Cont.)

Retiree Contribution (Cont.)

If healthcare premiums exceed the hard caps as set by the State of Michigan under MCL 15.563, retirees must contribute the cost of the medical premiums in excess of the hard caps.

HRA Contributions

The Road Commission reimburses pre-65 retirees for deductibles and copays in excess of \$2,000 per year for single coverage or in excess of \$4,000 per year for double coverage. The employer estimates that the average cost of reimbursements is equal to 13% of the premium for the selected coverage level.

Monthly Life Insurance Premiums

The Road Commission pays \$2.50 per month per \$1,000 coverage provided for retiree life insurance.

Summary of Plan Participants

As of December 31, 2018, retirement plan membership consisted of the following:

	<u>Union</u>	<u>Managers</u>	<u>Commissioner</u>	<u>Total</u>
Inactive plan members receiving benefits	72	22	4	98
Active plan members	31	9	0	40
Total participants	<u>103</u>	<u>31</u>	<u>4</u>	<u>138</u>

Contributions

The Saginaw County Road Commission OPEB was established and is being funded under the authority of the Road Commission and under agreements with the unions representing various classes of employees. The plan's funding policy is that the employer will fund the plan on a pay-as-you-go basis. Currently, benefit payments are made from the general operating funds. There are no long term contracts for contributions to the plan.

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

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00%
Investment rate of return	6.03%
20-year Aa Municipal bond rate	3.00%
Mortality	RP-2014 adjusted to 2006, Total Data Set, Headcount-weighted, MP-2018 no pre-retirement mortality

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

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-Term Expected Real Rate of Return (%)</u>
Total Market Portfolio	50	5.25
Global fixed income	50	1.8

The sum of each target allocation times its long-term expected real rate is 5.25%. The long-term expected rate of return after including inflation is 6.03%.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.00%. The assets are not projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

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

Changes in the Net OPEB Liability

<u>Changes during the year</u>	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at December 31, 2017	\$ 25,452,191	\$ -	\$ 25,452,191
Service cost	344,702	-	344,702
Interest	761,217	-	761,217
Experience (Gains)/Losses	719,423	-	719,423
Change in assumptions	3,037,369	-	3,037,369
Contributions to OPEB trust	-	60,000	(60,000)
Contributions/benefits paid from general operations	-	845,994	(845,994)
Benefit payments; Including Refunds of Employee Contributions	(845,994)	(845,994)	-
Net changes	<u>4,016,717</u>	<u>60,000</u>	<u>3,956,717</u>
Balance at December 31, 2018	<u>\$ 29,468,908</u>	<u>\$ 60,000</u>	<u>\$ 29,408,908</u>

Net OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the net OPEB liability (NOL) of the Road Commission, calculated using trend and discount rates 1% higher and lower than base assumptions:

Total OPEB Liability	\$ 34,125,950	\$ 29,468,908	\$ 25,734,105
Plan Fiduciary Net Position	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Net OPEB Liability	<u>\$ 34,065,950</u>	<u>\$ 29,408,908</u>	<u>\$ 25,674,105</u>
<u>Trend</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 2,598,942	\$ 29,468,908	\$ 34,308,993
Plan Fiduciary Net Position	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Net OPEB Liability	<u>\$ 2,538,942</u>	<u>\$ 29,408,908</u>	<u>\$ 34,248,993</u>

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

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

OPEB Expense

Components of the Road Commission's OPEB expense for the fiscal year ending December 31, 2018 are as follows:

	<u>December 31, 2018</u>
Service cost	\$ 344,702
Interest on total OPEB liability	761,217
Experience (Gains)/Losses	349,234
Change in assumptions	<u>1,474,451</u>
Total OPEB Expense/(Income)	<u><u>\$ 2,929,604</u></u>

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2018 is \$60,000.

Deferred Inflows and Outflows of Resources Related to OPEB Plan

Deferred inflows and outflows are as follows:

Description	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Experience (Gains)/Losses	\$ 370,189	\$ -
Change in assumptions	1,562,918	-
Total	<u><u>\$ 1,933,107</u></u>	<u><u>\$ -</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

	December 31,	Recognized
	2019	\$ 1,823,685
	2020	109,421
Total		<u><u>\$ 1,933,106</u></u>

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Reconciliation of Net OPEB Liability

Net OPEB Liability December 31, 2017	\$	25,452,191
Total OPEB expense		2,929,604
Contributions		(905,994)
Change in deferred outflows of resources		1,933,107
Net OPEB Liability December 31, 2018	\$	<u>29,408,908</u>

Total OPEB Liability by Participant Status

Active participants	\$	11,283,775
Inactive participants receiving benefits		18,185,133
	\$	<u>29,468,908</u>

NOTE 8--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2018, the Federal aid received and expended by the Road Commission was \$3,270,009 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Commission administers the grant and either performs the work or contracts it out. The Road Commission is subject to single audit requirements if they expended \$750,000 or more for negotiated projects.

NOTE 9--SUBSEQUENT EVENTS

The financial statements and related disclosure include evaluation of events up through and including June 25, 2019, which is the date the financial statements were available to be issued.

NOTE 10--RISK MANAGEMENT

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

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

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

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

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

NOTE 11--LITIGATION

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

NOTE 12—NEW ACCOUNTING STANDARD

For the year ended December 31, 2018, the Road Commission implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB 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

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 12—NEW ACCOUNTING STANDARD (CONT.)

current employees, retirees, and their beneficiaries. The Statement requires employers to record a liability and expense equal to their Net OPEB liability and expense for the plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement is as follows:

	<u>Governmental Activities</u>
Beginning net position as previously reported December 31, 2017	\$ 152,649,261
Prior period adjustment-implementation GASB 75:	
OPEB	<u>(15,323,450)</u>
Net position of as December 31, 2017-restated	<u>\$ 137,325,811</u>

REQUIRED SUPPLEMENTAL INFORMATION

SAGINAW COUNTY ROAD COMMISSION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Federal	\$ 5,895,500	\$ 3,375,000	\$ 3,270,009	\$ (104,991)
State	18,849,000	24,002,500	22,646,017	(1,356,483)
County	2,908,500	3,102,000	3,454,129	352,129
Interest	28,700	27,000	39,794	12,794
Charge for services	95,000	95,000	117,518	22,518
Other revenue	169,000	685,500	817,484	131,984
Total Revenue	<u>27,945,700</u>	<u>31,287,000</u>	<u>30,344,951</u>	<u>(942,049)</u>
Expenditures				
Construction/capacity improvements	-	259,115	240,852	18,263
Preservation/structural improvements	15,277,099	9,953,800	9,873,254	80,546
Preventive/routine maintenance	10,674,163	12,962,600	12,921,544	41,056
Administration	543,500	1,180,500	1,078,942	101,558
Capital Outlay-net	450,000	875,000	790,036	84,964
Equipment-net	558,766	661,249	694,276	(33,027)
Other	228,871	295,736	266,835	28,901
Debt service	642,200	691,600	642,186	49,414
Total Expenditures	<u>28,374,599</u>	<u>26,879,600</u>	<u>26,507,925</u>	<u>371,675</u>
Change in fund balance before other financing sources	(428,899)	4,407,400	3,837,026	(570,374)
Fund Balance, Beginning of Year	9,561,311	9,561,311	9,561,311	-
Fund Balance, End of Period	<u>\$ 9,132,412</u>	<u>\$ 13,968,711</u>	<u>\$ 13,398,337</u>	<u>\$ (570,374)</u>

Saginaw County Road Commission
Schedules of Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years Ended December 31, 2018

	2018	2017	2016	2015	2009* to 2014*
Total pension liability					
Service cost	\$ 396,845	\$ 392,452	\$ 359,123	\$ 350,849	\$ -
Interest	2,606,124	2,535,884	2,448,649	2,327,034	-
Benefit payments	(2,295,603)	(2,156,171)	(2,095,826)	(2,116,662)	-
Benefit changes	-	-	(186,232)	-	-
Experience changes	(386,610)	205,475	1,584,059	-	-
Other changes	44,410	(32,084)	(78,355)	16,893	-
Net change in total pension liability	365,166	945,556	2,031,418	578,114	-
Total pension liability-beginning	33,525,923	32,580,367	30,548,949	29,970,835	-
Total pension liability-ending	<u>\$ 33,891,089</u>	<u>\$ 33,525,923</u>	<u>\$ 32,580,367</u>	<u>\$ 30,548,949</u>	<u>\$ -</u>
Plan fiduciary net position					
Contributions-employer	\$ 898,360	\$ 719,886	\$ 698,887	\$ 562,134	\$ -
Contributions-member	258,535	170,862	179,168	153,886	-
Net investment income (loss)	(894,542)	2,864,864	2,340,797	(328,425)	-
Benefits payments, including refunds	(2,295,603)	(2,156,171)	(2,095,826)	(2,116,662)	-
Administrative expense	(45,152)	(45,461)	(46,263)	(48,855)	-
Net change in fiduciary net position	(2,078,402)	1,553,980	1,076,763	(1,777,922)	-
Fiduciary net position-beginning	23,687,628	22,133,648	21,056,885	22,834,807	-
Fiduciary net position-ending	21,609,226	23,687,628	22,133,648	21,056,885	-
Net pension liability-ending	<u>\$ 12,281,863</u>	<u>\$ 9,838,295</u>	<u>\$ 10,446,719</u>	<u>\$ 9,492,064</u>	<u>\$ -</u>
Fiduciary net position as a percentage of the total pension liability	63.76%	70.65%	67.94%	68.93%	-
Covered-employee payroll	\$ 3,756,879	\$ 3,527,538	\$ 3,220,617	\$ 3,141,991	\$ -
Net pension liability as a percentage of covered-employee payroll	327%	279%	324%	302%	-

2009 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

Saginaw County Road Commission
Schedules of Required Supplementary Information
Schedule of Employer Contributions
For the Year Ended December 31, 2018

	2017	2016	2015	2014	2013
Actuarially determined contributions	\$ 719,887	\$ 623,888	\$ 562,134	\$ 531,975	\$ 456,603
Contribution in relation to the actuarially determined contribution	719,887	548,888	562,134	531,975	456,603
Contribution deficiency (excess)	\$ -	\$ 75,000	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 3,756,879	\$ 3,527,334	\$ 3,220,617	\$ 3,141,991	\$ 3,258,074
Contribution as a percentage of covered- employee payroll	20%	17%	17%	17%	14%
	2012	2011	2010	2009	2008
Actuarially determined contributions	\$ 386,130	\$ 346,310	\$ 251,039	\$ 344,871	\$ 466,244
Contribution in relation to the actuarially determined contribution	386,130	346,310	251,039	344,871	466,244
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 3,336,606	\$ 3,404,013	\$ 3,418,831	\$ 3,473,897	\$ 3,379,869
Contribution as a percentage of covered- employee payroll	12%	10%	7%	10%	14%

Notes to Required Supplementary Information

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	23 years
Asset valuation method	5 year smoothed market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment expenses, including inflation
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male R-P 2014 Group Mortality table

Saginaw County Road Commission
 Required Supplementary Information-OPEB
 For the Year Ended December 31, 2018
 Changes in Net OPEB Liability and Related Ratios

	Fiscal Year Ending December 31, 2018
	2018
Service cost	\$ 344,702
Interest	761,217
Difference in expected and actual experience	719,423
Change in assumptions	3,037,369
Benefits payments and refunds	(845,994)
Net change in total OPEB liability	4,016,717
Total OPEB- beginning	25,452,191
Total OPEB- ending	\$ 29,468,908
Plan Fiduciary Net Position	
Contributions to OPEB trust	60,000
Contributions from general operations	845,994
Benefits payments and refunds	(845,994)
Net change in total fiduciary net position	60,000
Total fiduciary net position-beginning	-
Total fiduciary net position-ending	\$ 60,000
Net OPEB Liability	\$ 29,408,908
Plan fiduciary net position as a % of total OPEB liability	0.20%
Covered employees	\$ 4,414,057
Net OPEB Liability as a % of payroll	666.30%

Saginaw County Road Commission
 Required Supplementary Information-OPEB
 Schedule of Employer Contributions
 Fiscal Year Ending December 31, 2018

	2019	2018
Service cost	\$ 415,305	\$ 355,043
Amortization of unfunded liability	4,720,317*	3,625,828
Actuarially Determined Employer Contribution	\$ 5,135,622	\$ 3,980,871
Employer Contribution	TBD	905,994
Contribution Deficiency/(Excess)	TBD	\$ 3,074,877
Covered Employee Payroll	Not avail	\$ 4,414,057
Contribution as a Percentage of Covered Payroll	Not avail	90.19%

*Based on 8 year, level dollar, amortization of unfunded liability; alternative funding scenarios could be considered

Saginaw County Road Commission
 Required Supplementary Information - OPEB
 For the Year Ended December 31, 2018
 State of Michigan Public Act 530 and 202 Information

Financial information	2018
Assets (Fiduciary net position)	\$ 60,000
Liabilities (Total OPEB Liability)	\$ 29,468,908
Funded ratio for the Plan Year	0.20%
Actuarially Recommended Contribution (ARC) with 30-year amortization period	\$ 1,615,773
Is ARC calculated in compliance with No. Letter 2018-3?	Yes
Membership	2018
Active members	40
Retirees and Beneficiaries	34
Premiums paid on behalf of the retirees	\$ 845,994
Actuarial Assumptions	2018
Actuarially assumed rate of investment return	6.03%
Discount rate	3.00%
Amortization method used for funding unfunded liability	Level \$
Amortization period used for funding unfunded liability	30 years
Is each division closed to new employees	No
Healthcare inflation assumption	
Uniform Assumptions	2018
Actuarial value of assets using uniform assumptions	\$ 60,000
Funded ratio using uniform assumptions	0.20%
Annual Required contribution (ARC) using uniform assumptions	\$ 1,885,461
Information for Summary Report (minimum required contribution)*	2018
Retiree insurance premiums for the year (1)	\$ 845,994
Normal cost as a percent of covered payroll (2)	9.13%
Covered payroll for employees hired after June 30, 2018 (3)	N/A
Normal cost for employees hired after June 30, 2018 (4) = (2) x (3)	N/A
Minimum required contribution under PA 202 (1) + (4)	\$ 845,994

*Senate Bill 686 requires that a local unit must contribute at least both of the following - Normal cost for employees first hired after June 30, 2018 and retiree premiums due to retirees in the retirement system; In order to obtain 40% funding, higher contributions may be needed.

Saginaw County Road Commission
 Required Supplementary Information-OPEB
 Assumptions and methods used in Calculation of Actuarially Determined Contribution
 Fiscal Year Ending December 31, 2018

Valuation date December 31, 2018

Actuarial Methods

Cost method Entry Age Normal (level percentage of compensation)
 Asset valuation method Market value

Actuarial Assumptions

Discount rate – 3.0% for December 31, 2018 liability and 2018 contribution. Rationale – Average effective rate consisting of long term on assets and 20-year Aa Municipal Bond

20-year Aa Municipal Bond Rate. - 3.00% Rationale - December 31, 2018 bond rate

Salary scale – 2.00% Rationale - Expected future pay increases provided by client

Return on plan assets – 6.03%. Rationale - Consistent with plan investment experience

Mortality rates – RP-2014 adjusted to 2006, Total Data Set, Headcount-weighted, MP-2018 no pre-retirement mortality. Rationale - Contemporary table consistent with Uniform Assumptions under Public Act 202

Utilization - 100% of covered employees at the valuation date will elect coverage at retirement; actual coverage used for non-active. Rationale - historical

Turnover rates – See sample rates below. Rationale – Based on rates of termination assumed by MERS in the valuation of the pension plan

Years of Service	Rate
0	0.200
5	0.065
10	0.050
15	0.037
20	0.030
25	0.027
30	0.026
35+	0.000

Marital assumption – Current marital status assumed at retirement age. Rationale - Consistent with current employer demographic

Age of Spouse – Actual age is used for spouses of current retirees and active employees. Rationale - Actual data available

Saginaw County Road Commission
 Required Supplementary Information-OPEB
 Assumptions and methods used in Calculation of Actuarially Determined Contribution (Continued)
 Fiscal Year Ending December 31, 2018

Retirement – Rates as shown below. Rationale - Rates based on the retirement assumption applicable to participants with MERS pension benefit multiplier of 2.5 % or less.

Age	Rate	Age	Rate
50	0.20	61	0.22
51	0.20	62	0.22
52	0.20	63	0.22
53	0.20	64	0.25
54	0.20	65	0.25
55	0.20	66	0.25
56	0.20	67	0.26
57	0.21	68	0.28
58	0.21	69	0.30
59	0.21	70+	1.00
60	0.21		

Implicit subsidy – Equal to the expected annual claims less the annual per person premium. Rationale - Based on age-weighting of actives and pre-65 retirees and the premium rates in effect.

Medical Trend – Pre-Medicare, 8.5% graded down to 4.5% by 0.25% per year; Post-Medicare, 7.0% graded down to 4.5% by 0.25% per year. Rationale - Consistent with Uniform Assumptions under Public Act 202.

Annual per-capita cost valued

Medical

The below rates were developed based on the premium rates charged to the employer and the current population of covered actives and pre-65, including covered spouses and dependents.

Age	Employee		Spouse	
	Males	Females	Males	Females
30-34	2,287.47	5,121.33	3,202.44	7,169.80
35-39	2,772.70	5,321.13	3,881.74	7,449.52
40-44	3,388.40	5,728.88	4,743.71	8,020.36
45-49	4,350.69	6,287.50	6,090.91	8,802.42
50-54	5,765.58	7,103.00	8,071.74	9,944.10
55-59	8,256.93	8,742.15	11,559.59	12,238.90
60-64	11,449.61	10,670.81	16,029.30	14,938.99
65+	4,667.64	4,667.64	4,667.64	4,667.64

Covered dependents up to age 26 are assumed to generate claims at the following annual rate of \$1,019.85 for males and \$2,311.02 for females.

Required Supplementary Information-OPEB
Assumptions and methods used in Calculation of Actuarially Determined Contribution (Continued)
Fiscal Year Ending December 31, 2018

HRA Contribution

The Road commission indicated that, on average, HRA contributions toward copays and deductibles beyond a \$1,500 single / \$3,000 double or family limit are equal to 13% of the premium for the level of coverage elected. Annual costs were equal to 13% to the annual medical premiums, assumed to increase with pre-65 medical trend rates.

Life Insurance

Cost valued were equal to \$2.50 per \$1,000 of coverage per year, based on current coverage for retirees and presumed coverage for future retirees.

Dental

The premiums for dental coverage are assumed to cover the full true cost of this benefit and were valued as the annual expected claim cost.

Data Collection

Date and form of data - All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross.

Assumption changes since prior valuation

- * The interest rate used changed from 3.16% at 12/31/2017 (4.0% at 12/31/2015) to 3.00%
- * The mortality rates table used changed from 2015 IRS Funding schedule to RP-2014 adjusted to 2006 Total Data Set, Headcount-weighted, MP-2018 no pre-retirement mortality
- * Medical trend rates changed from Pre-65 Medical & HRA Contribution: 8.0% in 2016 graded down 0.5% per year to an ultimate rate of 5.0% and Post-65 Medical: 5.0% in all years to Pre-Medicare Medical & HRA Contribution: 8.5% graded down to 4.5% by 0.25% per year; Post Medicare: 7.0% graded down to 4.5% by 0.25% per year

Saginaw County Road Commission
 Required Supplementary Information-OPEB
 Schedule of Deferred Outflows (Inflows) Experience, Assumptions and Earnings
 Fiscal Year Ending December 31, 2018

Schedule of Difference between Actual and Expected Experience

Year Ended December 31,	Difference Between Expected and Actual Experience	Recognition Period (Years)	Amount Recognized in Year Ended 12/31,					Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022		
2018	\$ 719,423	2.06	\$ 349,234	\$ 349,234	\$ 20,954	\$ -	\$ -	\$ 370,189	\$ -
Net recognized in OPEB expense			<u>\$ 349,234</u>	<u>\$ 349,234</u>	<u>\$ 20,954</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 370,189</u>	<u>\$ -</u>

Schedule of Changes in Assumptions

Year Ended December 31,	Changes in Assumptions	Recognition Period (Years)	Amount Recognized in Year Ended 12/31,					Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022		
2018	\$ 3,037,369	2.06	\$ 1,474,451	\$ 1,474,451	\$ 88,467	\$ -	\$ -	\$ 1,562,918	-
Net recognized in OPEB expense			<u>\$ 1,474,451</u>	<u>\$ 1,474,451</u>	<u>\$ 88,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,562,918</u>	<u>\$ -</u>

Schedule of Differences between Projected and Actual Earnings on OPEB Plan Investments

NONE

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended 12/31,			
	2019	2020	2021	2022
Total Deferred Outflow/(Inflow) of Resources	\$ 1,823,685	\$ 109,421	\$ -	\$ -

OTHER SUPPLEMENTAL INFORMATION

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Revenues				
Federal				
Surface transportation program	\$ 1,910,587	\$ 999,427	\$ -	\$ 2,910,014
Bridge	395,995	-	-	395,995
Other	(36,000)	-	-	(36,000)
Total Federal	<u>2,270,582</u>	<u>999,427</u>	<u>-</u>	<u>3,270,009</u>
State				
Engineering	6,571	3,429	-	10,000
Urban road	1,404,789	751,587	-	2,156,376
Allocation	10,802,193	5,638,072	-	16,440,265
Local bridge	-	74,289	-	74,289
Other	3,919,059	46,028	-	3,965,087
Total State	<u>16,132,612</u>	<u>6,513,405</u>	<u>-</u>	<u>22,646,017</u>
County				
City and Villages	-	-	263,772	263,772
Township	-	3,110,968	-	3,110,968
Other government	-	-	79,389	79,389
Total County	<u>-</u>	<u>3,110,968</u>	<u>343,161</u>	<u>3,454,129</u>
Charge for service				
Salvage sales	-	-	10,779	10,779
Other	10,674	69,380	26,685	106,739
Total Charges for service	<u>10,674</u>	<u>69,380</u>	<u>37,464</u>	<u>117,518</u>
Interest	<u>1,878</u>	<u>10,908</u>	<u>27,008</u>	<u>39,794</u>
Other				
Special assessments	-	70,329	-	70,329
Gain (loss) equipment disposals	40,054	50,068	110,150	200,272
Sundry refunds	153,602	153,602	-	307,204
Contributions from private sources	-	220,250	-	220,250
Other	-	-	19,429	19,429
Total Other	<u>193,656</u>	<u>494,249</u>	<u>129,579</u>	<u>817,484</u>
Total Revenues	<u>\$ 18,609,402</u>	<u>\$ 11,198,337</u>	<u>\$ 537,212</u>	<u>\$ 30,344,951</u>

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Appropriated			Total
	Primary Roads	Local Roads	County Roads	
Expenditures				
Construction/capacity improvements	\$ 3,532	\$ 237,320	\$ -	\$ 240,852
Preservation/structural improvements	3,779,023	6,094,231	-	9,873,254
Preventive/routine maintenance	5,474,527	7,447,017	-	12,921,544
Other				
Administration	433,582	645,360	-	1,078,942
Equipment	1,673,078	2,962,048	684,259	5,319,385
Less: equipment rental	(1,454,711)	(2,575,447)	(594,951)	(4,625,109)
Capital outlay	864,875	864,874	432,435	2,162,184
Less: depreciation credits and retirements	(274,430)	(343,037)	(754,681)	(1,372,148)
Debt principal	300,973	300,973	-	601,946
Interest	20,120	20,120	-	40,240
Other	-	-	266,835	266,835
Total Other	<u>1,563,487</u>	<u>1,874,891</u>	<u>33,897</u>	<u>3,472,275</u>
Total Expenditures	<u>10,820,569</u>	<u>15,653,459</u>	<u>33,897</u>	<u>26,507,925</u>
Excess of revenue over (under) expenditures	7,788,833	(4,455,122)	503,315	3,837,026
Optional transfer	(6,000,000)	6,000,000	-	-
Net Change in fund balance	1,788,833	1,544,878	503,315	3,837,026
Fund Balance, Beginning	451,234	2,620,966	6,489,111	9,561,311
Fund Balance, Ending	<u>\$ 2,240,067</u>	<u>\$ 4,165,844</u>	<u>\$ 6,992,426</u>	<u>\$ 13,398,337</u>



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

June 25, 2019

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, 2018, and the related notes to the financial statements, which collectively comprise Saginaw County Road Commission's basic financial statements and have issued our report thereon dated June 13, 2019.

Internal Control Over Financial Reporting

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

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

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

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*.

Road Commission's Response to Findings

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

Purpose of Report

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

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

Certified Public Accountants

SAGINAW COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Financial Statement Audit Findings-None

SAGINAW COUNTY ROAD COMMISSION
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Financial Statement Audit Findings

Finding 2017-1

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

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

Management's Response

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

Current Status

Issue was resolved in the current year.