

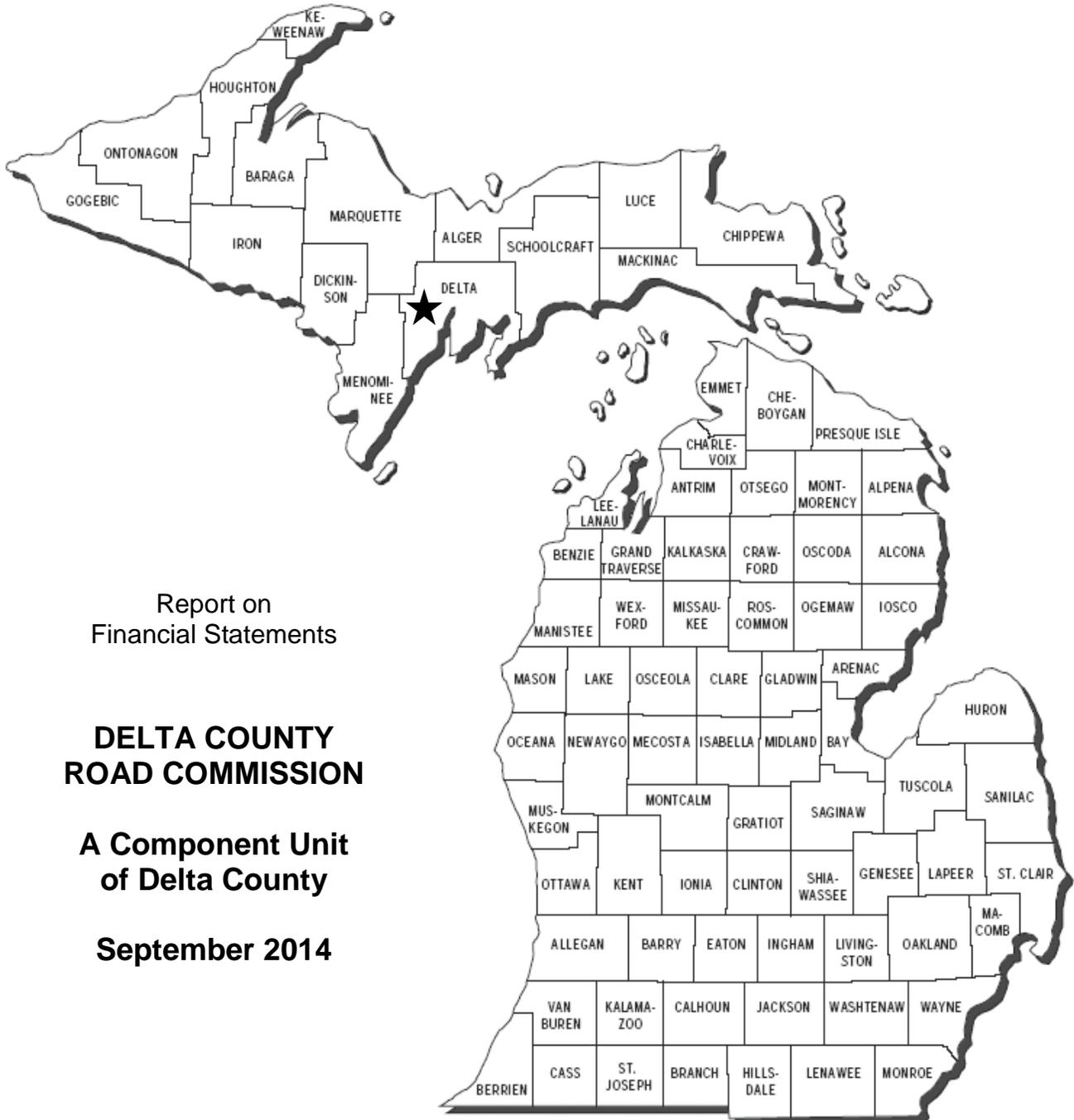
# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

R. KEVIN CLINTON

State Treasurer



Report on  
Financial Statements

### DELTA COUNTY ROAD COMMISSION

A Component Unit  
of Delta County

September 2014

DELTA COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Peter Stropich  
Chairman

Randy Bjork  
Vice-Chairman

Mike Larrabee  
Member

Bob Aschbacher  
Member

Dennis Stanek  
Member

Jody Norman  
Managing Director

Amy J. Reinhardt  
Finance Director

Pamela Gustafson  
Office Clerk

COUNTY POPULATION--2010  
37,069

STATE EQUALIZED VALUATION--2014  
\$1,403,677,037



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

March 2, 2015

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, Michigan 49829

Independent Auditor's Report

Dear Commissioners:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund of the Delta County Road Commission, a component unit of Delta County, Michigan, as of and for the fiscal year ended September 30, 2014, and related notes to the financial statements, which collectively comprise the Delta 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 misstatements, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting 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 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 Delta County Road Commission, as of September 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits G and H and the schedule of funding progress for pensions 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 the 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 the sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delta County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits I through K is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 accompanying supplementary and related information presented in Exhibits I through K are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2015, on our consideration of Delta 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delta County Road Commission's internal control over financial reporting and compliance.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

DELTA COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	1
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
EXHIBIT A--Statement of Net Position.....	10
EXHIBIT B--Statement of Activities .....	11
EXHIBIT C--Balance Sheet--Governmental Fund.....	12
EXHIBIT D--Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.....	13
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance--Governmental Fund .....	14
EXHIBIT F--Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	15
NOTES TO FINANCIAL STATEMENTS .....	16
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Schedule of Funding Progress--Pension and Other Post-employment Benefits.....	30
EXHIBIT G--General Operating Fund--Schedule of Revenues--Budget and Actual .....	31
EXHIBIT H--General Operating Fund--Schedule of Expenditures--Budget and Actual.....	32
<b><u>SUPPLEMENTARY SCHEDULES</u></b>	
EXHIBIT I--General Operating Fund--Analysis of Changes in Fund Balances .....	33
EXHIBIT J--General Operating Fund--Analysis of Revenues .....	34
EXHIBIT K--General Operating Fund--Analysis of Expenditures .....	35
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u> .....	36
Report to Those Charged With Governance.....	38
Schedule of Findings and Responses .....	41

## **DELTA COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014**

Our discussion and analysis of the Delta County Road Commission's financial performance provides an overview of its financial activities for the fiscal year ended September 30, 2014. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

#### **Overview of the Financial Statements**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Road Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Position and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net position and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

#### **Reporting the Road Commission as a Whole**

The Statement of Net Position and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

## **DELTA COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014**

The two statements mentioned above report the Road Commission's net position and changes in them. The reader can think of the Road Commission's net position (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating.

#### **Report of the Road Commission's Major Fund**

The fund financial statements begin with Exhibit C and provide detailed information about the major fund. The Road Commission has only one fund, the General Operating Fund, in which all of the Road Commission's activities are accounted. The General Operating Fund is a governmental type fund.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

#### **The Road Commission as a Whole**

The Road Commission's net position increased approximately 7.53% or \$2,139,358 from \$28,415,175 to \$30,554,533 for the year ended September 30, 2014. The net assets and change in net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by 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 specified purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

The current and other assets increased by \$1,466,107 primarily as a result of additions to road infrastructure (preservation/structural improvement projects) completed during 2014 and an increase in cash due to controlling expenditures.

**DELTA COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2014**

Net assets as of the fiscal year ended September 30, 2014, compared to the prior year, are as follows:

	Governmental Activities 09/30/13	Governmental Activities 09/30/14	Variance	Percentage
Current and Other Assets	\$ 4,651,444	\$ 6,117,551	\$ 1,466,107	31.52%
Net Capital Assets	28,923,554	30,202,894	1,279,340	4.42%
<b>Total Assets</b>	<b>33,574,998</b>	<b>36,320,445</b>	<b>2,745,447</b>	<b>8.18%</b>
Current Liabilities	286,893	308,133	21,240	7.40%
Noncurrent Liabilities	4,477,982	4,350,015	(127,967)	-2.86%
<b>Total Liabilities</b>	<b>4,764,875</b>	<b>4,658,148</b>	<b>(106,727)</b>	<b>-2.24%</b>
<b>Deferred Inflows of Resources</b>				
Unamortized Refunding Bond Premiums	19,985	18,558	(1,427)	-7.14%
Unearned Revenues--Forest Road Funds	374,963	450,148	75,185	20.05%
Unearned Revenues--PRIP Funds	-	639,058	639,058	100.00%
	394,948	1,107,764	712,816	100.00%
<b>Net Position</b>				
Investment in Capital Assets	24,933,554	26,397,894	1,464,340	5.87%
Restricted	3,481,621	4,156,639	675,018	19.39%
<b>Total Net Position</b>	<b>\$ 28,415,175</b>	<b>\$ 30,554,533</b>	<b>\$ 2,139,358</b>	<b>7.53%</b>

**DELTA COUNTY ROAD COMMISSION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2014**

The following table presents a two year comparison of the Statement of Activities:

	<u>2013</u>	<u>2014</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Charges for Services	\$ 1,724,002	\$ 1,840,061	\$ 116,059	6.73%
Operating Grants and Contributions	3,828,266	3,885,292	57,026	1.49%
Capital Grants and Contributions	975,235	2,216,303	1,241,068	127.26%
General Revenue				
Gain on Equipment Disposal	<u>144,742</u>	<u>153,837</u>	<u>9,095</u>	<u>6.28%</u>
Total Revenue	<u>6,672,245</u>	<u>8,095,493</u>	<u>1,423,248</u>	<u>21.33%</u>
Expenses				
Primary Routine and Preventive Maintenance	1,183,145	1,197,363	14,218	1.20%
Local Routine and Preventive Maintenance	1,327,364	1,490,128	162,764	12.26%
State Trunkline Maintenance	1,413,555	1,750,137	336,582	23.81%
Net Equipment Expense	223,296	107,480	(115,816)	-51.87%
Net Administrative Expense	378,743	264,884	(113,859)	-30.06%
Maintenance for Other Units	128,144	70,554	(57,590)	-44.94%
Infrastructure Depreciation Expense	1,242,258	1,215,043	(27,215)	-2.19%
Compensated Absences	(738)	(14,393)	(13,655)	1850.27%
Other Net Pension Obligations	(200,000)	(300,000)	(100,000)	50.00%
Interest Expense	183,962	176,367	(7,595)	-4.13%
Refunding--Cost of Issuance	<u>(1,428)</u>	<u>(1,428)</u>	<u>-</u>	<u>0.00%</u>
Total Expenses	<u>5,878,301</u>	<u>5,956,135</u>	<u>77,834</u>	<u>1.32%</u>
Change in Net Position	<u>793,944</u>	<u>2,139,358</u>	<u>1,345,414</u>	<u>169.46%</u>
Ending Net Position	<u>\$ 28,415,175</u>	<u>\$ 30,554,533</u>	<u>\$ 2,139,358</u>	<u>7.53%</u>

The total revenue increased by 21.33% from 2013 to 2014. The most significant variance was increased capital grants and contributions, due to large Federal/State Aid Bridge Projects as well as other small locally funded projects.

Total expenses increased by 1.32% from 2013 to 2014. The most significant increase was due to the increase in State Trunkline Maintenance as a result of the harsh winter in 2014.

We feel that Road Commission revenue and expenditures will always vary from year to year depending on many factors, such as level of State/Federal funding for capitalization projects, level of local contributions for both maintenance and preservation, weather conditions that may require more or less maintenance, and State Trunkline maintenance and non-maintenance expenses and revenue which vary from year to year.

# DELTA COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014

### The Road Commission's Fund

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2014, the fund balance of the General Operating Fund increased by \$357,446 compared to an increase of \$384,168 in the fund balance for the fiscal year ended September 30, 2013. Total operating revenues were \$8,095,493, an increase of \$1,423,248 as compared to last year. This change in revenues resulted from an increase in Federal and State Grants, which vary from year to year depending on funding available and projects that qualify for grants, as well as other locally funded projects being completed in 2014.

Total expenditures were \$7,738,047, an increase of \$1,449,970 in comparison to last year. This change in expenditures is primarily the result of an increase in primary road structures preservation/structural improvements and local road structure preservation/structural improvements for new bridge projects mainly due to having a large Federal / State Aid funded bridge projects in 2014, after having very little of that expense in Fiscal Year 2013.

	<u>2013</u>	<u>2014</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 11,422	\$ 12,682	\$ 1,260	11.03%
Federal Grants	565,819	1,194,635	628,816	111.13%
State Grants	3,923,569	4,476,729	553,160	14.10%
Contributions From Local Units	275,385	421,205	145,820	52.95%
Charges for Services	1,578,736	1,756,764	178,028	11.28%
Interest and Rents	14,308	9,026	(5,282)	-36.92%
Other Revenue	303,006	224,452	(78,554)	-25.92%
Total Revenues	<u>6,672,245</u>	<u>8,095,493</u>	<u>1,423,248</u>	<u>21.33%</u>
Expenditures				
Public Works	5,777,747	7,132,803	1,355,056	23.45%
Capital Outlay	144,796	242,126	97,330	67.22%
Debt Service	365,534	363,118	(2,416)	-0.66%
Total Expenditures	<u>6,288,077</u>	<u>7,738,047</u>	<u>1,449,970</u>	<u>23.06%</u>
Excess of Expenditures Over Revenues	384,168	357,446	(26,722)	6.96%
Fund Balance--Beginning	<u>2,761,092</u>	<u>3,145,260</u>	<u>384,168</u>	<u>13.91%</u>
Fund Balance--Ending	<u>\$ 3,145,260</u>	<u>\$ 3,502,706</u>	<u>\$ 357,446</u>	<u>11.36%</u>

**DELTA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended September 30, 2014**

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in the original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2014 was \$6,973,620, which was \$1,121,873 less than the actual revenue received for the year. The final amended budget was \$8,054,279, which was \$41,214 more than the actual revenue received. This was mostly due to MTF funds coming in higher than estimated for the two months received after 9/30/14.

The Road Commission's original expenditure budget was projected at \$7,688,718, while actual expenditures were \$7,738,047 resulting in actual expenditures being more than the original budget by \$49,329. There were budget amendments made throughout the year. However, actual expenditures were less than the final amended budget by \$178,610. This was due to over-estimating Preservation/Structural Improvement expenditures and Net Equipment Expenditures at fiscal year-end.

# DELTA COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014

### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2014, the Road Commission had \$30,202,894 invested in capital assets as follows:

	<u>09/30/13</u>	<u>09/30/14</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 1,385,001	\$ 1,385,001	0.00%
Construction in Progress	140,052	196,124	40.04%
Infrastructure--Land and Improvements	<u>3,770,407</u>	<u>4,029,038</u>	<u>6.86%</u>
Subtotal	<u>5,295,460</u>	<u>5,610,163</u>	<u>5.94%</u>
Capital Assets Being Depreciated			
Buildings	6,878,038	6,934,199	0.82%
Road Equipment	7,137,182	7,484,456	4.87%
Shop Equipment	142,627	145,637	2.11%
Office Equipment	131,538	131,538	0.00%
Engineer's Equipment	40,373	40,373	0.00%
Infrastructure--Bridges	3,195,277	4,208,246	31.70%
Infrastructure--Roads	<u>22,574,595</u>	<u>23,513,599</u>	<u>4.16%</u>
Subtotal	<u>40,099,630</u>	<u>42,458,048</u>	<u>5.88%</u>
Total Capital Assets	45,395,090	48,068,211	5.89%
Total Accumulated Depreciation	<u>(16,471,536)</u>	<u>(17,865,317)</u>	<u>8.46%</u>
Total Net Capital Assets	<u>\$ 28,923,554</u>	<u>\$ 30,202,894</u>	<u>4.42%</u>

The Road Commission acquired and placed in service infrastructure and other assets during the current year in the amount of \$3,107,438. The Road Commission will begin depreciating infrastructure assets placed in service during the fiscal year ended September 30, 2014 in the following fiscal year. The infrastructure is financed through Federal, State and local contributions.

Additional information on capital assets can be found in Note E to the financial statements.

**DELTA COUNTY ROAD COMMISSION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2014**

This year’s major capital asset additions included the following:

Various Resurfacing Projects and Related Land	\$ 2,210,603
Road Construction in Progress	81,263
Buildings and Improvements	56,161
Equipment	<u>759,410</u>
Total Additions	<u>\$ 3,107,437</u>

Debt

There were no new installment purchase agreements entered into during 2014; all the equipment was acquired with Road Commission funds. There is \$3,805,000 outstanding on the 2007 Refunding Bonds at September 30, 2014 as follows:

	<u>Balances 09/30/13</u>	<u>Balances 09/30/14</u>
2007 MTF Refunding Bonds	<u>\$ 3,990,000</u>	<u>\$ 3,805,000</u>
Total	<u>\$ 3,990,000</u>	<u>\$ 3,805,000</u>

Additional information on long term debt can be found in Note F to the financial statements.

**Economic Factors and Next Year’s Budget**

The Board of County Road Commissioners considered many factors when setting the fiscal year 2014 budget. One of the factors is the economy. The Road Commission derived approximately 47% of its revenue from the fuel tax collected in 2014, which is down 5% compared to 52% of total revenue in 2013. That change is due to the Road Commission having more other revenues in 2014 due to a large Federal/State Aid project and other locally funded projects. The Road Commission received approximately 5% of its revenues from township contributions during 2014. This amount fluctuates with the approved road projects and depends on the number of projects that are scheduled and how much the townships can afford to participate. During 2015, we expect to receive \$4,585,516 (NOT including Forest Funds Allocation or MTF Allocation) in Federal and State Aid for road projects.

The preceding items were considered when adopting the budget for 2015. Total projected revenues for fiscal year 2015 are \$10,560,316, while projected expenditures are \$11,527,786. We have approved expenditures to exceed revenues mainly because at the end of Fiscal Year 2014 our total fund balance increased by \$357,446 even though in our original Proposed Fiscal Year 2014 Budget we had planned a reduction to total fund balance in the amount of \$715,098. The difference was due to a reduction to capital preventative maintenance work which was not able to be completed as planned; therefore these expenditures are now being planned for Fiscal

## **DELTA COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014**

Year 2015 – as well as capital equipment purchases that are being carried over and funds to be set aside for matching township contributions for fiscal year 2015.

The Board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Delta County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Delta County.

#### **Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Delta County administrative offices at: 3000 32<sup>nd</sup> Avenue North, Escanaba, Michigan 49829.

**DELTA COUNTY ROAD COMMISSION  
STATEMENT OF NET POSITION  
September 30, 2014**

**EXHIBIT A**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Current Assets	
Cash	\$ 2,963,440
Accounts Receivable	
Due From State	846,944
Due on County Road Agreements	64,041
Sundry Accounts	133,745
Inventories	1,151,819
Prepaid Expenses	43,562
Prepaid Net Pension Obligation	900,000
Non-Current Assets	
Long-Term Contract Receivable	14,000
Capital Assets--Depreciating	24,592,733
Capital Assets--Nondepreciating	5,610,161
	<hr/>
Total Assets	36,320,445
	<hr/>
<b><u>LIABILITIES</u></b>	
Current Liabilities	
Accounts Payable	186,744
Due to State of Michigan	17,693
Accrued Liabilities	30,475
Accrued Interest Payable	73,221
Non-Current Liabilities	
Advance From State	372,169
Bonds Payable Due Within One year	195,000
Bonds Payable Due in More Than One Year	3,610,000
Vested Employee Benefits Payable	172,846
	<hr/>
Total Liabilities	4,658,148
	<hr/>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Unamortized Refunding Bond Premiums	18,558
Unearned Revenue--Forest Road Funds	450,148
Unearned Revenue--PRIP Funds	639,058
	<hr/>
Total Deferred Inflows of Resources	1,107,764
	<hr/>
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	26,397,894
Restricted for County Roads	4,156,639
	<hr/>
Total Net Position	<u>\$ 30,554,533</u>

**The Notes to Financial Statements are an integral part of this statement.**

**DELTA COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended September 30, 2014**

**EXHIBIT B**

	<u>Governmental Activities</u>
Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,197,363
Local Road Routine and Preventive Maintenance	1,490,128
State Trunkline Maintenance	1,750,137
Net Equipment Expense	107,480
Net Administrative Expense	264,884
Maintenance for Other Units	70,554
Infrastructure Depreciation	1,215,043
Compensated Absences	(14,393)
Other Net Pension Obligations	(300,000)
Interest Expense	176,367
Refunding--Cost of Issuance	<u>(1,428)</u>
Total Program Expenses	<u>5,956,135</u>
Program Revenue	
Charges for Services	
License and Permits	12,682
Charges for Services	1,757,055
Other Non-Road Services	70,324
Operating Grants and Contributions	
Michigan Transportation Funds	3,876,266
Investment Earnings	9,026
Capital Grants and Contributions	
Federal Grants	1,194,635
State Grants	600,463
Contributions	<u>421,205</u>
Total Program Revenue	<u>7,941,656</u>
Net Program Revenue	<u>1,985,521</u>
General Revenue	
Gain on Equipment Disposal	<u>153,837</u>
Change in Net Position	2,139,358
Net Position	
Beginning of Year	<u>28,415,175</u>
End of Year	<u><u>\$ 30,554,533</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**DELTA COUNTY ROAD COMMISSION  
BALANCE SHEET--GOVERNMENTAL FUND  
September 30, 2014**

**EXHIBIT C**

<u>ASSETS</u>	General Operating Fund
Current Assets	
Cash	\$ 2,963,440
Accounts Receivable	
State Trunkline Maintenance	154,597
Michigan Transportation Fund	660,215
State--Other	32,132
Sundry Accounts	133,745
Due on County Road Agreements	64,041
Inventories	
Road Materials	903,517
Equipment Parts and Materials	248,302
Prepaid Expenses	43,562
Noncurrent Assets	
Long Term Contracts Receivable	14,000
Restricted Cash	-
Total Assets	<u><u>\$ 5,217,551</u></u>
 <b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 186,744
Due to State	17,693
Accrued Liabilities	30,475
Advances	
State Trunkline Equipment Purchase	260,392
State Trunkline Maintenance	111,777
Total Liabilities	<u>607,081</u>
Deferred Inflows of Resources	
Unamortized Refunding Bond Premiums	18,558
Unearned Revenue--Forest Road Funds	450,148
Unearned Revenue--PRIP Funds	639,058
Total Deferred Inflows of Resources	<u>1,107,764</u>
Fund Equity	
Fund Balance	
Nonspendable:	
Inventory	1,151,819
Prepays	43,562
Long Term Contracts Receivable	14,000
Restricted for Road Operations	2,293,325
Total Fund Equity	<u>3,502,706</u>
Total Liabilities, Deferred Inflows of Resources and Fund Equity	<u><u>\$ 5,217,551</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**DELTA COUNTY ROAD COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL  
FUND BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
September 30, 2014**

**EXHIBIT D**

Total Governmental Fund Balance \$ 3,502,706

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 30,202,894

Long-term liabilities are not due and payable in the current period and are not reported in the fund.

Bonds Payable	\$(3,805,000)	
Compensated Absences	<u>(172,846)</u>	(3,977,846)

Payments toward underfunded pension liabilities is an expenditure in the governmental funds, but not in the Statement of Activities (where it is recorded as a prepaid). 900,000

The interest is accrued to the end of the year, but is not due until the following year. (73,221)

Net Position of Governmental Activities \$30,554,533

**The Notes to Financial Statements are an integral part of this statement.**

**DELTA COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT E**

	General Operating Fund
Revenues	
Licenses and Permits	\$ 12,682
Federal Grants	1,194,635
State Grants	4,476,729
Contributions From Local Units	421,205
Charges for Services	1,756,764
Interest and Rents	9,026
Other Revenue	224,452
	<hr/>
Total Revenues	8,095,493
	<hr/>
Expenditures	
Public Works	7,132,803
Capital Outlay	242,126
Debt Service	363,118
	<hr/>
Total Expenditures	7,738,047
	<hr/>
Excess of Revenues Over (Under) Expenditures	357,446
Fund Balance--October 1, 2013	3,145,260
	<hr/>
Fund Balance--September 30, 2014	\$ 3,502,706
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**DELTA COUNTY ROAD COMMISSION  
 RECONCILIATION OF THE GOVERNMENTAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 For the Fiscal Year Ended September 30, 2014**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Fund \$ 357,446

Amounts reported for governmental activities in the Statement of Activities 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. 1,279,340

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Position. 185,000

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. (Increase in compensated absences and decrease in interest expense, change in net pension obligation) 317,572

Change in Net Position of Governmental Activities \$ 2,139,358

**The Notes to Financial Statements are an integral part of this statement.**

## DELTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Delta County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Road Commission.

#### Reporting Entity

The Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 5-member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*, these financial statements present the Road Commission for financial reporting purposes. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if component unit data were not included. Based on the above criteria, these financial statements present the Road Commission, a discretely presented component unit of Delta County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies 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.

#### Basis of Presentation--Government-Wide Financial Statements

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

The Statement of Net Position presents the Road Commission's assets and liabilities with the difference being reported as either net investment in capital assets or restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

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. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customer or applicants for goods or services or privileges provided; and 2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventories

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

Prepaid Expenses

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

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts each pay period, depending on the number of years of service of the employee. Employees can accumulate vacation between 240 and 300 hours, depending on the years of service, to be used at their discretion.

Each regular employee earns sick leave at the rate of 2.16 hours per pay period. Sick leave may be accumulated to a maximum of 1,040 hours. The Road Commission's sick leave benefits policy provides for payment of 50% of the accumulated benefits, to a maximum of 520 hours, when an employee takes a regular or disability retirement.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Unearned Revenue

Unearned revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Fund Balance Classifications

In accordance with Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Road Commission classifies its fund balances as follows:

- Non-spendable – 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 non-spendable balance reflects the inventory on hand, prepaid expenses and long term contracts receivable.
- 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.

## DELTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Committed – includes fund balance amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision making authority.
- Assigned – includes fund balance amounts that are intended to be used by the government for specific purposes but do not meet the criteria to classified as restricted or committed. Fund balance may be assigned by the Managing Director, Finance Director or his/her/their designee.
- Unassigned – is to be used only to report a deficit balance from overspending for specific purposes for which amounts have been restricted, committed or assigned.

When the Road Commission incurs an expenditure for which various fund classification can be used, it is the policy of the Road Commission to use restricted or committed funds first, unless there are legal documents / contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Road Commission would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

The Road Commission does not have a formal minimum balance policy.

#### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended (MCL 141.421), which requires the board of county road commissioners to approve a budget for the Operating Fund. Pursuant to the Act, the Road Commission's chief administrative officer (managing director) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board. Also, the board has authorized the chief administrative officer to amend the Road Commission's budget when necessary, by transferring up to 15% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

##### Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Although the actual 2014 expenditures were within the final amended budget by a total of \$178,610, some expenditure activities exceeded the amounts appropriated.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Expenditures by activity that exceeded appropriations are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
State Trunkline Maintenance	\$ 1,553,000	\$ 1,568,536	\$ (15,536)
State Trunkline Non-Maintenance	177,500	181,601	(4,101)
Capital Outlay--Net	237,327	242,126	(4,799)

NOTE C--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, 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 obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of 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.

The Road Commission has designated one financial institution for the deposit of Road Commission funds. The investment policy adopted by the board, as in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	<u>General Operating Fund</u>
Cash	\$ 2,963,440
Restricted Cash	<u>-</u>
Total	<u><u>\$ 2,963,440</u></u>

DELTA COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 2,963,240
Petty Cash and Cash on Hand	<u>200</u>
Total	<u><u>\$ 2,963,440</u></u>

Non-negotiable certificates of deposits that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because non-negotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

The bank balance of the Road Commission's deposits is \$3,304,042 as of September 30, 2014, of which \$250,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to US Treasury Securities.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

The Road Commission manages its exposure to interest rate risk by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities; money market mutual funds or similar investment pools; and limiting the average maturity of the portfolio in accordance with their policy.

As of September 30, 2014, the Road Commission did not have any investments.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The investment policy of the Road Commission contains provisions that the investment portfolio will be diversified so that the impact of potential losses from any one type of security or from any one individual will be minimized. With the exception of US Treasury securities and authorized investment pools, no more than 25% of the total investment portfolio will be invested in a single security type or with a single financial institution.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Road Commission's investment policy contains policy minimizing credit risk by limiting investments to the types of securities authorized by PA 20 of 1943, as amended, except commercial paper investments must have a rating of not less than P1 from Moody's or A1 from Standard & Poor's and mutual fund investments must have a par share intended to maintain a net asset value of at least \$1.00 per share.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE D--DEFERRED COMPENSATION PLAN

The Delta County Road Commission offers all Road Commission employees a choice of two deferred compensation plans created in accordance with Internal Revenue Code Sections 457 (g) and 457 (b). The assets of the plan are held in a trust in a custodial account as described in IRS Sections 457(g) and (b) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted for any other use. The administrators are Nationwide Retirement Solutions and First Investors Corporation. Both are agents of the employer for purposes of providing direction to the custodians of the accounts regarding investment of funds, transfer of assets to or from the accounts, and all other matters. In accordance with the provisions of GASB Statement No. 32, the plan balances and activities are not reflected in the Road Commission's financial statements.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 10/1/2013	Additions	Deductions	Account Balances 9/30/2014
<b>Capital Assets Not Being Depreciated</b>				
Land and Improvements	\$ 1,385,001	\$ -	\$ -	\$ 1,385,001
Construction in Progress--Infrastructure	140,052	81,263	25,193	196,122
Infrastructure Land Improvements	<u>3,770,407</u>	<u>258,631</u>	<u>-</u>	<u>4,029,038</u>
Subtotal	<u>5,295,460</u>	<u>339,894</u>	<u>25,193</u>	<u>5,610,161</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and Improvements	6,878,039	56,161	-	6,934,200
Road Equipment	7,137,181	756,399	409,125	7,484,455
Shop Equipment	142,627	3,011	-	145,638
Office Equipment	131,538	-	-	131,538
Engineers' Equipment	40,373	-	-	40,373
Infrastructure--Bridges	3,195,277	1,012,969	-	4,208,246
Infrastructure--Roads	<u>22,574,595</u>	<u>939,003</u>	<u>-</u>	<u>23,513,598</u>
Total	<u>40,099,630</u>	<u>2,767,543</u>	<u>409,125</u>	<u>42,458,048</u>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	2,726,934	203,237	-	2,930,171
Road Equipment	6,243,598	346,431	380,011	6,210,018
Shop Equipment	129,351	3,616	-	132,967
Office Equipment	89,136	5,133	-	94,269
Engineers' Equipment	39,516	330	-	39,846
Infrastructure--Bridges	337,874	61,998	-	399,872
Infrastructure--Roads	<u>6,905,127</u>	<u>1,153,045</u>	<u>-</u>	<u>8,058,172</u>
Total	<u>16,471,536</u>	<u>1,773,790</u>	<u>380,011</u>	<u>17,865,315</u>
Net Capital Assets Being Depreciated	<u>23,628,094</u>	<u>993,753</u>	<u>29,114</u>	<u>24,592,733</u>
Total Net Capital Assets	<u>\$ 28,923,554</u>	<u>\$ 1,333,647</u>	<u>\$ 54,307</u>	<u>\$ 30,202,894</u>

Depreciation expense was charged to programs of the Road Commission as follows:

Net Equipment Expense	
Direct Equipment	\$ 346,431
Indirect Equipment	175,506
Distributive Expense	19,230
Net Administrative Expenses	17,580
Infrastructure Depreciation Expense	<u>1,215,043</u>
Total Depreciation Expense	<u>\$ 1,773,790</u>

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE F--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/1/2013</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balances</u> <u>9/30/2014</u>	<u>Due Within</u> <u>One Year</u>
2007 MTF Refunding Bonds	\$ 3,990,000	\$ -	\$ (185,000)	\$ 4,175,000	\$ 195,000
Vested Employees Benefits Payable	<u>187,239</u>	<u>-</u>	<u>(14,393)</u>	<u>172,846</u>	<u>145,969</u>
Total	<u>\$ 4,177,239</u>	<u>\$ -</u>	<u>\$ (199,393)</u>	<u>\$ 4,347,846</u>	<u>\$ 340,969</u>

2007 Michigan Transportation Refunding Bonds

On September 18, 2007, the County of Delta approved a \$4,800,000 Michigan Transportation Fund Refunding Bond issue, Series 2007, to refund the 1999 bond issue that was for the purpose of constructing Road Commission buildings. An advance refunding bond issue occurs when a new debt is issued to refinance an existing debt (old debt), but the proceeds must be placed in escrow pending call date or maturity. The difference between the cash flow required to service the old debt and the new debt and complete the refunding is \$254,425.66. The economic gain from the transaction (difference between the present value of the old debt service requirement and the present value of new debt service requirement, discounted at the effective interest rate on the new debt and adjusted for any additional cash) is \$197,304.86. The total bond issuance cost, including issuance cost, underwriter's discount, insurance fee, and additional proceeds, was \$111,307.81. The refunding bonds are payable over the period of 2008 to 2028 at interest rates that range from 4% to 5%.

The annual debt service requirements are as follows:

<u>Year Ending</u> <u>9/30/2015</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 195,000	\$ 171,586	\$ 366,586
2016	200,000	163,193	363,193
2017	210,000	153,693	363,693
2018	220,000	142,943	362,943
2019	230,000	132,842	362,842
2020-2024	1,340,000	510,186	1,850,186
2025-2029	<u>1,410,000</u>	<u>187,794</u>	<u>1,597,794</u>
Total	<u>\$ 3,805,000</u>	<u>\$ 1,462,237</u>	<u>\$ 5,267,237</u>

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE F--LONG-TERM DEBT (Continued)

Vested Employee Benefits Payable (Compensated Absences)

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts each pay period, depending on the number of years of service of the employee. Employees can accumulate vacation between 240 and 300 hours, depending on the years of service, to be used at their discretion.

Sick Leave Benefits

Each regular full-time employee receives sick leave with pay at the rate of 2.16 hours per pay period. Sick leave may be accumulated to a maximum of 1,040 hours. Any employee who retires at age 60, or becomes disabled with 10 years of service, and upon proper notice, shall be paid 50% of their accumulated sick leave, up to a maximum of 520 hours. An employee may use up to 32 hours of sick leave each year as personal leave time.

The road commission has estimated the current portion of vested employee benefits payable within one year based on historical trends and current policies regarding useage of these benefits.

NOTE G--EMPLOYEE PENSION PLANS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0%, 2.5% and 2.25% times the final average compensation (FAC) for teamster employees, the administration, managing director and the supervisory staff, respectively. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2013.

MERS was established in 1946 under Public Act 135 of 1945 and granted independence from the State of Michigan, pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS is administered under Public Act 427 of 1984, as amended. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE G--EMPLOYEE PENSION PLANS (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission’s competitive bargaining unit and personnel policy, which do not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate: \$16,500 for teamster employees, \$7,807 for administrative staff, 34.49% for supervisory staff and 4.72% for teamsters hired after April 1, 2012 for the calendar year ending December 31, 2013.

Annual Pension Cost

During the calendar year ended December 31, 2013, the Road Commission’s contributions totaling \$554,186 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2011. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 26 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8%, annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases and the assumption that benefits will increase 2.5% per year (annually) after retirement.

In addition to the employer’s required contribution, the Road Commission contributed an additional \$300,000 toward the underfunded liability during 2014.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec. 31</u>	<u>Employer Annual Pension Cost (APC)</u>	<u>Employee Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 524,149	\$ -	138%	\$ -
2012	548,582	1,112	137%	(200,000)
2013	554,186	4,889	154%	(300,000)

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE G--EMPLOYEE PENSION PLANS (Continued)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/13	\$5,738,487	\$10,608,141	\$4,869,654	54%	\$1,235,451	394%

The schedule of funding progress immediately following the notes to the financial statements presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE H--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. The Road Commission's maximum deductible for property & liability coverage and automobile coverage is \$500 per occurrence. The maximum liability for the property and liability is \$10,500,000 per occurrence. The automobile coverage provides for limits of liability of \$250,000 each person, \$500,000 each accident and \$1,000,000 total. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

County road commissions in the State of Michigan established and created a trust fund known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014

NOTE I--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2014, the Federal Grants received and expended by the Road Commission were \$1,194,635 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ended September 30, 2014, the Road Commission did not receive and expend any funds in Federal grants for negotiated (force account) projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements if the amount expended is \$500,000 or more. A single audit was not required for the fiscal year ended September 30, 2014.

NOTE J--UPCOMING REPORTING CHANGE

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the 2014-2015 fiscal year.

DELTA COUNTY ROAD COMMISSION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS--PENSION  
 For the Fiscal Year Ended September 30, 2014

EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information--Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/11	\$ 5,055,817	\$ 9,311,241	\$ 4,255,424	54%	\$ 1,189,429	358%
12/31/12	5,384,450	9,819,895	4,435,445	55%	1,188,423	373%
12/31/13	5,738,487	10,608,141	4,869,654	54%	1,235,451	394%

**DELTA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND  
SCHEDULE OF REVENUES--BUDGET AND ACTUAL  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 9,800	\$ 12,948	\$ 12,682	\$ (266)
Federal Grants				
Contracted				
Surface Transportation Program	650,000	600,000	581,009	(18,991)
Critical Bridges	796,100	620,100	613,626	(6,474)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,500,000	2,512,000	2,521,889	9,889
Local Road	1,020,000	1,053,000	1,079,646	26,646
Urban Primary	160,000	160,000	165,029	5,029
Urban Local	60,000	65,000	67,114	2,114
Snow Removal	42,220	42,588	32,588	(10,000)
Critical Bridge	148,500	116,500	115,055	(1,445)
Economic Development Fund				
Rural Primary (D)	120,000	112,000	108,939	(3,061)
Forest Road (E)	-	108,250	112,294	4,044
PRIP Funds	-	7,000	20,942	13,942
Other State Grants	-	243,233	243,233	-
Contributions--Local Units				
Townships	300,000	421,205	421,205	-
Charges for Services				
State Trunkline Maintenance	1,000,000	1,553,000	1,568,536	15,536
State Trunkline Non-Maintenance	50,000	177,500	181,601	4,101
Salvage Sales	3,000	6,627	6,627	-
Interest and Rents				
Interest Earned	14,000	8,900	9,026	126
Other Revenue				
Other Non Road Services	50,000	70,300	70,324	24
Refunds and Rebates	-	291	291	-
Gain on Equipment Disposals	40,000	153,837	153,837	-
Total Revenues	6,973,620	8,054,279	<u>\$ 8,095,493</u>	<u>\$ 41,214</u>
Fund Balance--October 1, 2013	3,145,260	3,145,260		
Total Budget	<u>\$ 10,118,880</u>	<u>\$ 11,199,539</u>		

**DELTA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND  
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 800,000	\$ 925,000	\$ 903,320	\$ 21,680
Routine and Preventive Maintenance	1,000,000	1,218,493	1,193,711	24,782
Local Road				
Preservation/Structural Improvements	200,000	185,000	181,097	3,903
Routine and Preventive Maintenance	1,000,000	1,514,297	1,485,840	28,457
Primary Road Structure				
Preservation/Structural Improvements	34,000	141,821	120,010	21,811
Routine and Preventive Maintenance	-	5,000	3,652	1,348
Local Road Structure				
Preservation/Structural Improvements	1,286,600	1,123,420	1,062,246	61,174
Routine and Preventive Maintenance	-	5,000	4,288	712
State Trunkline				
Maintenance	1,000,000	1,553,000	1,568,536	(15,536)
Non-Maintenance	50,000	177,500	181,601	(4,101)
Maintenance for Other Units	50,000	71,000	70,554	446
Equipment Expense--Net	255,000	117,065		
Direct			\$ 859,192	
Indirect			596,552	
Operating			361,329	
Less: Equipment Rentals			<u>(1,724,009)</u>	24,001
Distributive Expense	1,355,000	-	-	-
Administrative Expense--Net	195,000	279,616		
Administrative Expense			487,726	
Less: Overhead--State Trunkline			(216,457)	
Overhead--Other			<u>(6,385)</u>	14,732
Capital Outlay--Net	100,000	237,327		
Capital Outlay			815,571	
Less: Depreciation Credits			(544,331)	
Equipment Retirements			<u>(29,114)</u>	(4,799)
Debt Service				
Principal	185,000	185,000	185,000	-
Interest	178,118	178,118	178,118	-
Total Expenditures	7,688,718	7,916,657	<u>\$ 7,738,047</u>	<u>\$ 178,610</u>
Fund Balance--September 30, 2014	<u>2,430,162</u>	<u>3,282,882</u>		
Total Budget	<u>\$10,118,880</u>	<u>\$11,199,539</u>		

**DELTA COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT I**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 3,635,803	\$ 2,608,894	\$ 1,850,796	\$ 8,095,493
Total Expenditures	<u>2,969,812</u>	<u>2,910,460</u>	<u>1,857,775</u>	<u>7,738,047</u>
Excess of Revenues Over (Under) Expenditures	<u>665,991</u>	<u>(301,566)</u>	<u>(6,979)</u>	<u>357,446</u>
Other Financing Sources and (Uses) Optional Transfers	<u>(550,000)</u>	<u>550,000</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>(550,000)</u>	<u>550,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	115,991	248,434	(6,979)	357,446
Fund Balance--October 1, 2013	<u>1,829,871</u>	<u>155,032</u>	<u>1,160,357</u>	<u>3,145,260</u>
Fund Balance--September 30, 2014	<u>\$ 1,945,862</u>	<u>\$ 403,466</u>	<u>\$ 1,153,378</u>	<u>\$ 3,502,706</u>

**DELTA COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF REVENUES  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 12,682	\$ 12,682
Federal Grants				
Contracted				
Surface Transportation Program	581,009	-	-	581,009
Critical Bridges	-	613,626	-	613,626
State Grants				
Michigan Transportation Fund				
Engineering	7,002	2,998	-	10,000
Allocation	2,521,889	1,079,646	-	3,601,535
Urban	165,029	67,114	-	232,143
Snow Removal	-	32,588	-	32,588
Critical Bridge	-	115,055	-	115,055
Economic Development Fund				
Rural Primary (D)	108,939	-	-	108,939
Forest Road (E)	79,316	32,978	-	112,294
PRIP Funds	20,942	-	-	20,942
Other State Grants	-	243,233	-	243,233
Contributions From Local Units				
Townships	-	421,205	-	421,205
Charges for Services				
State Trunkline Maintenance	-	-	1,568,536	1,568,536
State Trunkline Non-Maintenance	-	-	181,601	181,601
Salvage Sales	-	-	6,627	6,627
Interest and Rents				
Interest Earned	5,235	451	3,340	9,026
Other Revenue				
Other Non Road Services	-	-	70,324	70,324
Refunds and Rebates	-	-	291	291
Gain on Equipment Disposal	146,442	-	7,395	153,837
Total Revenue	<u>\$ 3,635,803</u>	<u>\$ 2,608,894</u>	<u>\$ 1,850,796</u>	<u>\$ 8,095,493</u>

**DELTA COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 903,320	\$ -	\$ -	\$ 903,320
Routine and Preventive Maintenance	1,193,711	-	-	1,193,711
Local Road				
Preservation/Structural Improvements	-	181,097	-	181,097
Routine and Preventive Maintenance	-	1,485,840	-	1,485,840
Primary Road Structures				
Preservation/Structural Improvements	120,010	-	-	120,010
Routine and Preventive Maintenance	3,652	-	-	3,652
Local Road Structures				
Preservation/Structural Improvements	-	1,062,246	-	1,062,246
Routine and Preventive Maintenance	-	4,288	-	4,288
State Trunkline				
Maintenance	-	-	1,568,536	1,568,536
Non-Maintenance	-	-	181,601	181,601
Maintenance for Other Units	-	-	70,554	70,554
Equipment Expense--Net (Per Exhibit H)	25,141	30,839	37,084	93,064
Administrative Expense--Net (Per Exhibit H)	118,734	146,150	-	264,884
Capital Outlay--Net (Per Exhibit H)	242,126	-	-	242,126
Debt Service				
Principal	185,000	-	-	185,000
Interest	178,118	-	-	178,118
<b>Total Expenditures</b>	<b><u>\$ 2,969,812</u></b>	<b><u>\$ 2,910,460</u></b>	<b><u>\$ 1,857,775</u></b>	<b><u>\$ 7,738,047</u></b>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

March 2, 2015

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, Michigan 49829

RE: Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of the Financial Statements Performed  
in Accordance With Government Auditing Standards

Dear Commissioners:

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 major fund of the Delta County Road Commission, a component unit of Delta County, Michigan, as of and for the fiscal year ended September 30, 2014, which collectively comprise the Delta County Road Commission's basic financial statements, and have issued our report thereon dated March 2, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Delta 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 the Delta County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Delta 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 Delta County Road Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Delta 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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying Schedule of Findings and Responses as Finding 2014-001.

### **Delta County Road Commission's Response to Findings**

The Delta County Road Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Delta County Road Commission's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Delta County Road Commission's internal control or on compliance. This report is an integral part of the audit performed in accordance with Government Auditing Standards in considering Delta County Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

March 2, 2015

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, Michigan 49829

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities and major fund of the Delta County Road Commission, a component unit of Delta County, Michigan, for the fiscal year ended September 30, 2014, and have issued our report thereon dated March 2, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated May 9, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Delta County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the Delta County Road Commission's financial statements are free of material misstatement, we performed tests of the Delta County Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary

information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the methods of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on February 11, 2015.

#### Significant Results of the Audit

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Delta County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2014. We noted no transactions entered into by the Delta County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets in accordance with Generally Accepted Accounting Principles. Management's estimate of the current portion of vested employee benefits payable within the next year is based on historical trends and current policies regarding the usage of these benefits. We evaluated the key factors and assumptions used to develop the depreciation and the current portion of vested employee benefits payable in determining that they are reasonable in relation to the financial statements, taken as a whole.

#### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 2, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Delta County Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Delta County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Delta Board of County Road Commissioners and management of the Delta County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

DELTA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2014

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 Delta County Road Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Violation of Public Act 2 of 1968, as Amended

*Finding 2014-001*

*Condition:* During the fiscal year ended September 30, 2014, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
State Trunkline Maintenance	\$ 1,553,000	\$ 1,568,536	\$ (15,536)
State Trunkline Non-Maintenance	177,500	181,601	(4,101)
Capital Outlay	237,327	242,126	(4,799)

*Directive:* We direct that the Road Commission develop budgetary control procedures which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof.

*Management's Response:* We continue to develop budgetary control procedures to make sure that amendments are made to cover expenditures that may exceed amounts authorized in the General Appropriations Act. However, things invariably come up in the year end closing process that will cause expenditures to be recorded which will exceed the final amended budgeted amounts on a few of the line-items. We have made great improvement in this area over the last few years and will continue to work toward achieving full compliance.