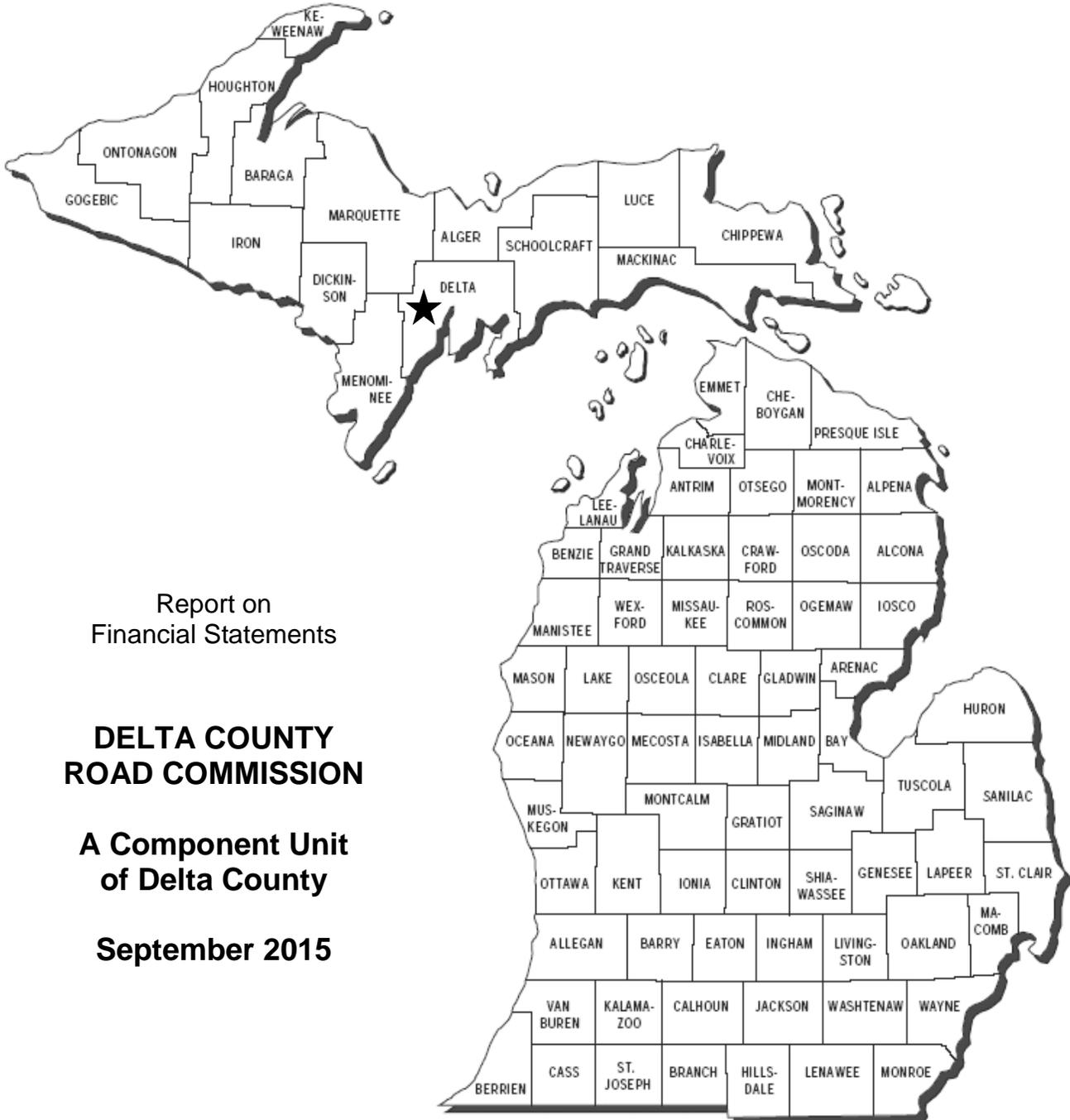


# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

Nick A. Khouri  
State Treasurer



Report on  
Financial Statements

### DELTA COUNTY ROAD COMMISSION

A Component Unit  
of Delta County

September 2015

DELTA COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

(February 11, 2016)

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--2015  
\$1,427,703,612



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

February 11, 2016

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 the 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, 2015, 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, 2015, 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.

### **Emphasis of Matter**

As discussed in Note J to the basic financial statements, in 2015, the Road Commission adopted the new accounting guidance of GASB No. 68, *Accounting and Financial Reporting for Pensions*, which establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of governmental employers through pension plans. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits G and H as well as pension trend data required by GASB Statement No. 68 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 February 11, 2016, 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.

Sincerely,



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Government Financial Services Division

DELTA COUNTY ROAD COMMISSION

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DELTA COUNTY ROAD COMMISSION

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## **DELTA COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015**

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, 2015. 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, 2015**

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 14.99% or \$3,761,877 from \$25,090,183 to \$28,852,060 for the year ended September 30, 2015. The net position and change in net position 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, charges 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 \$1,861,863 primarily as a result of additions to road infrastructure (preservation/structural improvement projects) completed during 2015.

**DELTA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended September 30, 2015**

Net position as of the fiscal year ended September 30, 2015, compared to the prior year, are as follows:

	Governmental Activities 09/30/14	Governmental Activities 09/30/15	Variance	Percentage
Current and Other Assets	\$ 6,117,551	\$ 4,760,312	\$ (1,357,239)	-22.19%
Net Capital Assets	30,202,894	33,421,996	3,219,102	10.66%
<b>Total Assets</b>	<b>36,320,445</b>	<b>38,182,308</b>	<b>1,861,863</b>	<b>5.13%</b>
Deferred Outflows of Resources				
Deferred Outflows--Pensions	572,197 *	871,985	299,788	52.39%
Current Liabilities	308,133	359,257	51,124	16.59%
Noncurrent Liabilities	10,575,768 *	9,825,846	(749,922)	-7.09%
<b>Total Liabilities</b>	<b>10,883,901</b>	<b>10,185,103</b>	<b>(698,798)</b>	<b>-6.42%</b>
Deferred Inflows of Resources				
Unamortized Refunding Bond Premiums	18,558	17,130	(1,428)	-7.69%
<b>Total Deferred Inflows of Resources</b>	<b>18,558</b>	<b>17,130</b>	<b>(1,428)</b>	<b>-7.69%</b>
Net Position				
Net Investment in Capital Assets	26,397,894	29,811,996	3,414,102	12.93%
Unrestricted	(1,307,711) *	(959,936)	347,775	-26.59%
<b>Total Net Position</b>	<b>\$ 25,090,183</b>	<b>\$ 28,852,060</b>	<b>\$ 3,761,877</b>	<b>14.99%</b>

\*Amounts have been restated for the implementation of GASB Statement Number 68.

With the implementation of GASB 68 this year, the Road Commission has recorded, for the first time, a net pension liability of \$5,136,547. This newly recorded liability decreased the positive prior year restricted net position of \$4,156,639 to the negative unrestricted net position (\$1,307,711) as seen above. The effect of the restated beginning net position can be found in Note K to the financial statements.

**DELTA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended September 30, 2015**

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

	2014	2015	Difference	Percent
Program Revenue				
Charges for Services	\$ 1,840,061	\$ 1,743,120	\$ (96,941)	-5.27%
Operating Grants and Contributions	3,885,292	3,986,023	100,731	2.59%
Capital Grants and Contributions	2,216,303	4,532,054	2,315,751	104.49%
General Revenue				
Gain on Equipment Disposal	153,837	87,211	(66,626)	-43.31%
<b>Total Revenue</b>	<b>8,095,493</b>	<b>10,348,408</b>	<b>2,252,915</b>	<b>27.83%</b>
Expenses				
Primary Road Routine and Preventive Maintenance	1,197,363	1,458,524	261,161	21.81%
Local Road Routine and Preventive Maintenance	1,490,128	1,776,357	286,229	19.21%
State Trunkline Maintenance	1,750,137	1,624,746	(125,391)	-7.16%
Net Equipment Expense	107,480	294,361	186,881	173.88%
Net Administrative Expense	264,884	334,632	69,748	26.33%
Maintenance for Other Units	70,554	46,449	(24,105)	-34.17%
Infrastructure Depreciation Expense	1,215,043	1,232,981	17,938	1.48%
Compensated Absences	(14,393)	(12,237)	2,156	-14.98%
Pension Expense	(300,000)	(332,446)	(32,446)	10.82%
Interest Expense	176,367	164,592	(11,775)	-6.68%
Refunding--Cost of Issuance	(1,428)	(1,428)	-	0.00%
<b>Total Expenses</b>	<b>5,956,135</b>	<b>6,586,531</b>	<b>630,396</b>	<b>10.58%</b>
<b>Change in Net Position</b>	<b>2,139,358</b>	<b>3,761,877</b>	<b>1,622,519</b>	<b>75.84%</b>
Restatement of Net Position for Pension Liability	(5,464,350)	-	5,464,350	100.00%
<b>Ending Net Position</b>	<b>\$ 25,090,183</b>	<b>\$ 28,852,060</b>	<b>\$ 3,761,877</b>	<b>14.99%</b>

The total revenue increased by 27.83% from 2014 to 2015. 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 10.58% from 2014 to 2015. The most significant increase was due to the increase in Primary and Local Maintenance and Net Equipment Expense offset by a decrease in State Trunkline Maintenance as a result of the milder winter in 2015.

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, 2015

#### 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, 2015, the fund balance of the General Operating Fund decreased by \$3,903 compared to an increase of \$357,446 in the fund balance for the fiscal year ended September 30, 2014. Total operating revenues were \$10,348,408, an increase of \$2,252,915 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 2015.

Total expenditures were \$10,352,311, an increase of \$2,614,264 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 2015.

	<u>2014</u>	<u>2015</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 12,682	\$ 11,305	\$ (1,377)	-10.86%
Federal Grants	1,194,635	2,317,894	1,123,259	94.03%
State Grants	4,476,729	5,611,529	1,134,800	25.35%
Contributions From Local Units	421,205	538,903	117,698	27.94%
Charges for Services	1,756,764	1,676,379	(80,385)	-4.58%
Interest and Rents	9,026	4,651	(4,375)	-48.47%
Other Revenue	224,452	187,747	(36,705)	-16.35%
Total Revenues	<u>8,095,493</u>	<u>10,348,408</u>	<u>2,252,915</u>	<u>27.83%</u>
Expenditures				
Public Works	7,132,803	10,011,811	2,879,008	40.36%
Capital Outlay	242,126	(24,659)	(266,785)	-110.18%
Debt Service	363,118	365,159	2,041	0.56%
Total Expenditures	<u>7,738,047</u>	<u>10,352,311</u>	<u>2,614,264</u>	<u>33.78%</u>
Excess of Revenue Over (Under)Expenditures	357,446	(3,903)	(361,349)	-101.09%
Fund Balance--Beginning	<u>3,145,260</u>	<u>3,502,706</u>	<u>357,446</u>	<u>11.36%</u>
Fund Balance--Ending	<u>\$ 3,502,706</u>	<u>\$ 3,498,803</u>	<u>\$ (3,903)</u>	<u>-0.11%</u>

**DELTA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended September 30, 2015**

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based on 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 2015 was \$10,560,316, which was \$211,908 more than the actual revenue received for the year. The final amended budget was \$9,902,175, which was \$446,233 less than the actual revenue received in the amount \$10,348,408. This was mostly due to additional bridge project funding and MTF funds coming in higher than estimated.

The Road Commission's original expenditure budget was projected at \$11,527,786, while actual expenditures were \$10,352,311 resulting in actual expenditures being less than the original budget by \$1,175,475. There were budget amendments made throughout the year. However, actual expenditures were more than the final amended budget of \$9,821,282 by \$531,029. This was due to under-estimating Preservation/Structural Improvement expenditures and Net Equipment Expenditures at fiscal year-end in the final amended budget.

**DELTA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended September 30, 2015**

**Capital Assets and Debt Administration**

Capital Assets

As of September 30, 2015, the Road Commission had \$33,421,996 invested in capital assets which was a net increase of \$3,219,102 or 10.66% over the prior fiscal year as follows:

	<u>09/30/14</u>	<u>09/30/15</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 1,385,001	\$ 1,385,001	0.00%
Construction in Progress	196,124	2,336,598	1091.39%
Infrastructure--Land and Improvements	<u>4,029,038</u>	<u>4,541,807</u>	<u>12.73%</u>
Subtotal	<u>5,610,163</u>	<u>8,263,406</u>	<u>47.29%</u>
Capital Assets Being Depreciated			
Buildings and Improvements	6,934,199	6,955,921	0.31%
Road Equipment	7,484,456	7,794,245	4.14%
Shop Equipment	145,637	145,638	0.00%
Office Equipment	131,538	133,158	1.23%
Engineer's Equipment	40,373	40,373	0.00%
Infrastructure--Bridges	4,208,246	4,661,125	10.76%
Infrastructure--Roads	<u>23,513,599</u>	<u>24,884,216</u>	<u>5.83%</u>
Subtotal	<u>42,458,048</u>	<u>44,614,676</u>	<u>5.08%</u>
Total Capital Assets	48,068,211	52,878,082	10.01%
Total Accumulated Depreciation	<u>(17,865,317)</u>	<u>(19,456,086)</u>	<u>8.90%</u>
Total Net Capital Assets	<u>\$ 30,202,894</u>	<u>\$ 33,421,996</u>	<u>10.66%</u>

The Road Commission acquired and placed in service infrastructure and other assets during the current year in the amount of \$5,177,439. The Road Commission will begin depreciating infrastructure assets placed in service during the fiscal year ended September 30, 2015 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, 2015**

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

Various Resurfacing Projects and Related Land	\$ 1,823,497
Road Construction in Progress	2,191,010
Infrastructure Land Improvements	512,769
Buildings and Improvements	21,721
Road Equipment	<u>628,442</u>
Total Additions	<u>\$ 5,177,439</u>

Debt

There were no new installment purchase agreements and/or other debt obligations entered into during fiscal year 2015; all the equipment was acquired with Road Commission funds. The Road Commission made scheduled bond payments in the amount of \$195,000 during the fiscal year. At September 30, 2015 there was \$3,610,000 outstanding on the 2007 MTF Refunding Bonds as follows:

	<u>Balances 09/30/14</u>	<u>Balances 09/30/15</u>
2007 MTF Refunding Bonds	<u>\$ 3,805,000</u>	<u>\$ 3,610,000</u>
Total	<u><u>\$ 3,805,000</u></u>	<u><u>\$ 3,610,000</u></u>

More detailed information about the Road Commission’s long-term liabilities which includes vested employee benefits is presented 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 2015 budget. One of the factors is the economy. The Road Commission derived approximately 38% of its revenue from the fuel tax collected in 2015, which is down 9% compared to 47% of total revenue in 2014. That change is due to the Road Commission having more other revenues in 2015 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 2015. 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 2016, we expect to receive \$3,416,320 (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 2016. Total projected revenues for fiscal year 2016 are \$10,321,635, while projected expenditures are \$11,551,385. We have approved expenditures to exceed revenues mainly because at the end of Fiscal Year 2014 our total fund balance increased by \$357,446 and at the end of Fiscal Year 2015 the total fund balance only

## **DELTA COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015**

decreased by \$3,903. In Fiscal Year 2016 we plan to do more local preventative maintenance and had assigned \$500,000 from Fiscal Year 2015's ending fund balance for matching township contributions. We also plan to get projects ready to go for when the increased fuel tax collections start coming through in Fiscal Year 2017.

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, 2015**

**EXHIBIT A**

<u>ASSETS</u>	Governmental Activities
Current Assets	
Cash	\$ 2,541,629
Accounts Receivable	
Due From State	888,405
Due on County Road Agreements	40,362
Due from Other Governmental Units	20,857
Sundry Accounts	46,116
Inventories	1,151,629
Prepaid Expenses	61,314
Non-Current Assets	
Long-Term Contract Receivable	10,000
Capital Assets--Depreciating	25,158,590
Capital Assets--Nondepreciating	8,263,406
	<hr/>
Total Assets	38,182,308
	<hr/>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows--Pension Investments	85,422
Deferred Outflows--Employer Pension Contributions	786,563
	<hr/>
Total Deferred Outflows of Resources	871,985
	<hr/>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	135,547
Due to State of Michigan	118,499
Accrued Liabilities	38,985
Accrued Interest Payable	66,226
Non-Current Liabilities	
Advance From State	393,718
Unearned Revenue--Forest Road Funds	557,630
Bonds Payable Due Within One year	200,000
Bonds Payable Due in More Than One Year	3,410,000
Vested Employee Benefits Payable Due Within One Year	125,000
Vested Employee Benefits Payable	35,609
Net Pension Liability	5,103,889
	<hr/>
Total Liabilities	10,185,103
	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unamortized Refunding Bond Premiums	17,130
	<hr/>
Total Deferred Inflows of Resources	17,130
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	29,811,996
Unrestricted	(959,936)
	<hr/>
Total Net Position	\$ 28,852,060
	<hr/>

**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, 2015**

**EXHIBIT B**

	<u>Governmental Activities</u>
Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,458,524
Local Road Routine and Preventive Maintenance	1,776,357
State Trunkline Maintenance	1,624,746
Net Equipment Expense	294,361
Net Administrative Expense	334,632
Maintenance for Other Units	46,449
Infrastructure Depreciation	1,232,981
Compensated Absences	(12,237)
Pension Expense	(332,446)
Interest Expense	164,592
Refunding--Cost of Issuance	(1,428)
	<hr/>
Total Program Expenses	6,586,531
Program Revenue	
Charges for Services	
License and Permits	11,305
Charges for Services	1,685,365
Other Non-Road Services	46,450
Operating Grants and Contributions	
Michigan Transportation Funds	3,981,372
Investment Earnings	4,651
Capital Grants and Contributions	
Federal Grants	2,317,894
State Grants	1,630,157
Contributions	584,003
	<hr/>
Total Program Revenue	10,261,197
	<hr/>
Net Program Revenue	3,674,666
	<hr/>
General Revenue	
Gain on Equipment Disposal	87,211
	<hr/>
Change in Net Position	3,761,877
Net Position	
Beginning of Year	30,554,533
	<hr/>
Restatement of Net Position for Pension Liability (Note K)	(5,464,350)
	<hr/>
Restated Net Position--Beginning of Year (Note K)	25,090,183
	<hr/>
End of Year	\$ 28,852,060
	<hr/> <hr/>

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

**DELTA COUNTY ROAD COMMISSION  
BALANCE SHEET--GOVERNMENTAL FUND  
September 30, 2015**

**EXHIBIT C**

	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Current Assets	
Cash	\$ 2,541,629
Accounts Receivable	
State Trunkline Maintenance	165,480
Michigan Transportation Fund	697,542
State--Other	25,383
Sundry Accounts	46,116
Due on County Road Agreements	40,362
Due from Other Governmental Units	20,857
Inventories	
Road Materials	849,029
Equipment Parts and Materials	302,600
Prepaid Expenses	61,314
Noncurrent Assets	
Long Term Contracts Receivable	<u>10,000</u>
Total Assets	<u><u>\$ 4,760,312</u></u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u></b>	
Liabilities	
Accounts Payable	\$ 135,547
Due to State	118,499
Accrued Liabilities	38,985
Advances	
State Trunkline Equipment Purchase	260,392
State Trunkline Maintenance	133,326
Unearned Revenue--Forest Road Funds	<u>557,630</u>
Total Liabilities	<u>1,244,379</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Unamortized Refunding Bond Premiums	17,130
Fund Balance	
Nonspendable:	
Inventory	1,151,629
Prepays	61,314
Long Term Contracts Receivable	10,000
Restricted for Road Operations	<u>2,275,860</u>
Total Fund Balance	<u>3,498,803</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 4,760,312</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  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT D**

Total Governmental Fund Balance		\$ 3,498,803
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.		33,421,996
Long-term liabilities are not due and payable in the current period and are not reported in the fund.		
Bonds Payable	\$ (3,610,000)	
Compensated Absences	<u>(160,609)</u>	(3,770,609)
Net pension liability is not due and payable in the current period and is not reported in the funds.		(5,103,889)
Certain pension contributions and changes in pension plan net position are reported as deferred outflows of resources in the statement of net position, are reported as expenses in the governmental funds.		871,985
The interest is accrued to the end of the year, but is not due until the following year.		<u>(66,226)</u>
Net Position of Governmental Activities		<u><u>\$28,852,060</u></u>

**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, 2015**

**EXHIBIT E**

	General Operating Fund
Revenues	
Licenses and Permits	\$ 11,305
Federal Grants	2,317,894
State Grants	5,611,529
Contributions From Local Units	538,903
Charges for Services	1,676,379
Interest and Rents	4,651
Other Revenue	187,747
	<hr/>
Total Revenues	10,348,408
	<hr/>
Expenditures	
Public Works	10,011,811
Capital Outlay	(24,659)
Debt Service	365,159
	<hr/>
Total Expenditures	10,352,311
	<hr/>
Excess of Revenues Over (Under) Expenditures	(3,903)
Fund Balance--October 1, 2014	3,502,706
	<hr/>
Fund Balance--September 30, 2015	\$ 3,498,803
	<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, 2015**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Fund \$ (3,903)

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.

3,219,102

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.

195,000

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)

19,232

Increase in pension liability reported in the statement of activities does not require the use of resources, and therefore, is not reported in the funds statements until it comes due for payment.

332,446

Change in Net Position of Governmental Activities

\$ 3,761,877

**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, 2015

#### 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, 2015

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, 2015

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, 2015

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. In this category deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources result from two transactions: contributions to the defined pension plan subsequent to the plan's year end through the Road Commission fiscal year end and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

In addition to liabilities, the statement of net position and / or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that is applicable to a future reporting period.

Unearned revenue

Unearned revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred. It represents unexpended proceeds of expenditure driven grants and/or charges for services collected in advance.

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.

## DELTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

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

##### Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- 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 in the amount of \$1,151,629, prepaid expenses in the amount of \$61,314 and long term contracts receivable in the amount of \$10,000.
- 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.
- 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

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

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

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 25% 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. The following activities exceeded the final amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Structure--Preservation/Structural Improvements	\$ 1,701,302	\$ 2,126,517	\$ (425,215)
Local Road Structure--Preservation/Structural Improvements	553,208	636,805	(83,597)
Maintenance for Other Units	42,500	46,449	(3,949)
Equipment Expenses--Net	189,605	294,361	(104,756)

The Board will monitor budgeted amounts to actual year-to-date revenues and expenditures with a budget amendment being processed if necessary just prior to the end of the fiscal year to ensure expenditures will not exceed amounts authorized.

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.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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	\$ 2,541,629
Restricted Cash	<u>-</u>
Total	<u>\$ 2,541,629</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 2,541,429
Petty Cash and Cash on Hand	<u>200</u>
Total	<u>\$ 2,541,629</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 \$3,113,246 as of September 30, 2015, 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.

## DELTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

#### NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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, 2015, 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.

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.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

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.

NOTE E--CAPITAL ASSETS

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

	Account Balances 10/1/2014	Additions	Deductions	Account Balances 9/30/2015
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 1,385,001	\$ -	\$ -	\$ 1,385,001
Construction in Progress--Infrastructure	196,122	2,191,010	50,534	2,336,598
Infrastructure Land Improvements	4,029,038	512,769	-	4,541,807
Subtotal	<u>5,610,161</u>	<u>2,703,779</u>	<u>50,534</u>	<u>8,263,406</u>
Capital Assets Being Depreciated				
Buildings and Improvements	6,934,200	21,721	-	6,955,921
Road Equipment	7,484,455	626,822	317,032	7,794,245
Shop Equipment	145,638	-	-	145,638
Office Equipment	131,538	1,620	-	133,158
Engineers' Equipment	40,373	-	-	40,373
Infrastructure--Bridges	4,208,246	452,879	-	4,661,125
Infrastructure--Roads	23,513,598	1,370,618	-	24,884,216
Total	<u>42,458,048</u>	<u>2,473,660</u>	<u>317,032</u>	<u>44,614,676</u>
Less Accumulated Depreciation				
Buildings and Improvements	2,930,171	209,573	-	3,139,744
Road Equipment	6,210,018	428,688	274,441	6,364,265
Shop Equipment	132,967	2,933	-	135,900
Office Equipment	94,269	5,245	-	99,514
Engineers' Equipment	39,846	208	-	40,054
Infrastructure--Bridges	399,872	81,308	-	481,180
Infrastructure--Roads	8,058,172	1,137,257	-	9,195,429
Total	<u>17,865,315</u>	<u>1,865,212</u>	<u>274,441</u>	<u>19,456,086</u>
Net Capital Assets Being Depreciated	<u>24,592,733</u>	<u>608,448</u>	<u>42,591</u>	<u>25,158,590</u>
Total Net Capital Assets	<u>\$ 30,202,894</u>	<u>\$ 3,312,227</u>	<u>\$ 93,125</u>	<u>\$ 33,421,996</u>

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE E--CAPITAL ASSETS (Continued)

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

Net Equipment Expense			
Direct Equipment	\$	428,688	
Indirect Equipment		181,159	
Distributive Expense		4,814	
Net Administrative Expenses		17,570	
Infrastructure Depreciation Expense		<u>1,232,981</u>	
Total Depreciation Expense	\$	<u>1,865,212</u>	

NOTE F--LONG-TERM DEBT

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

	Balances 10/1/2014	Additions	(Reductions)	Balances 9/30/2015	Due Within One Year
2007 MTF Refunding Bonds	\$ 3,805,000	\$ -	\$ (195,000)	\$ 3,610,000	\$ 200,000
Vested Employees Benefits Payable	<u>172,846</u>	<u>-</u>	<u>(12,237)</u>	<u>160,609</u>	<u>125,000</u>
Total	<u>\$ 3,977,846</u>	<u>\$ -</u>	<u>\$ (207,237)</u>	<u>\$ 3,770,609</u>	<u>\$ 325,000</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%.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE F--LONG-TERM DEBT (Continued)

The annual debt service requirements are as follows:

Year Ending 9/30/2015	Principal	Interest	Total
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	245,000	123,189	368,189
2021-2025	1,400,000	449,705	1,849,705
2026-2029	<u>1,105,000</u>	<u>114,129</u>	<u>1,219,129</u>
Total	<u>\$ 3,610,000</u>	<u>\$ 1,279,694</u>	<u>\$ 4,889,694</u>

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 usage of these benefits.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

*Plan Description:* The Road Commission participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS is a nonprofit organization, that was granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com) or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

*Benefits Provided—Defined Benefit:* The Road Commission’s defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

Table 2	2014 Valuation		
	01 - Teamsters: Closed to New Hires)	10 - Non-Union: Closed to New Hires	12 - Supervisory: Open Division
<b>Benefit Multiplier:</b>	2.00% Multiplier (No Max)	2.50% Multiplier (80% Max)	2.25% Multiplier (80% Max)
<b>Normal Retirement Age:</b>	60	60	60
<b>Vesting:</b>	10 years	6 years	10 years
<b>Early Retirement (Unreduced):</b>	N/A	55/25	N/A
<b>Early Retirement (Reduced):</b>	50/25 55/15	50/25 55/15	50/25 55/15
<b>Final Average Compensation:</b>	5 years	5 years	5 years
<b>COLA for Future Retirees:</b>	-	2.50% (Non-Compound)	-
<b>Employee Contributions:</b>	0%	0%	0%
<b>Act 88:</b>	Yes (Adopted 5/8/2003)	Yes (Adopted 5/8/2003)	Yes (Adopted 5/8/2003)
	13 - Teamsters hired after 4/1/2012: Open Division	14 - Non-Union after 9/1/2012 Open Division	
<b>Benefit Multiplier:</b>	1.70% Multiplier (No Max)	2.25% Multiplier (80% Max)	
<b>Normal Retirement Age:</b>	60	60	
<b>Vesting:</b>	10 years	6 years	
<b>Early Retirement (Unreduced):</b>	N/A	55/25	
<b>Early Retirement (Reduced):</b>	50/25 55/15	50/25 55/15	
<b>Final Average Compensation:</b>	5 years	5 years	
<b>COLA for Future Retirees:</b>	-	2.50% (Non-Compound)	
<b>Employee Contributions:</b>	3%	0%	
<b>Act 88:</b>	Yes (Adopted 5/8/2003)	Yes (Adopted 5/8/2003)	

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

*Employees covered by benefit terms:* At the December 31, 2014, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	38
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>34</u>
Total employees covered by MERS Plan	<u><u>76</u></u>

*Contributions:* Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended September 30, 2015, the Road Commission's contribution rate was 67.67% for supervisory employees, 5.62% for Teamsters and 22.06% for the non-union employees based on annual payroll for all employees.

Net Pension Liability

The employer's net pension liability reported at September 30, 2015, was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The December 31, 2014 total pension liability was determined by an annual actuarial valuation performed as of that date.

*Actuarial assumptions:* The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%-4%
Salary Increases	4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)
Investment Rate of Return	8.0%, net of investment expense, including inflation

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study in 2008.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2014, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

*Discount rate:* The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balances at December 31, 2013	\$ 10,540,833	\$ 5,404,286	\$ 5,136,547
Changes for the Year:			
Service Cost	114,334	-	114,334
Interest	848,222	-	848,222
Contributions--Employer	-	660,540	(660,540)
Contributions--Employees	-	7,208	(7,208)
Net investment income	-	339,991	(339,991)
Benefit payments, including refunds	(633,049)	(633,049)	-
Administrative expense	-	(12,525)	12,525
Net changes	<u>329,507</u>	<u>362,165</u>	<u>(32,658)</u>
Balances as of December 31, 2014	<u>\$ 10,870,340</u>	<u>\$ 5,766,451</u>	<u>\$ 5,103,889</u>

*Sensitivity of the Net Pension Liability to changes in the discount rate:* The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
Net Pension Liability at December 31, 2014		\$ 5,103,889	
Change in Net Pension Liability (NPL)	\$ 1,088,720		\$ (935,759)

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

For the year ended September 30, 2015, the Road Commission recognized pension expense of \$542,460. At September 30, 2015, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>
Employer contributions to the plan subsequent to the measurement date*	\$ 786,563
Net difference between projected and actual earnings on pension plan investments**	<u>85,422</u>
Total	<u>\$ 871,985</u>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the fiscal year ending September 30, 2016.

\*\*Amounts reported as deferred outflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2016	\$ 21,355
2017	21,355
2018	21,356
2019	21,356

## DELTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

#### 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.

#### 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, 2015, the Federal Grants received and expended by the Road Commission were \$2,317,894 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, 2015, 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, 2015.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE J—CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year, the Road Commission implemented GASB 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 is now recorded on the government-wide statements and is 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).

Coinciding with the implementation of GASB Statement No. 68, the Road Commission also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment to GASB Statement No. 68*. The statement addressed the issue regarding the application of the transition provisions of GASB Statement No. 68 relating to the amounts associated with contributions made by the Road Commission to the defined benefit pension plan after the measurement date of the Road Commission’s beginning net pension liability. GASB Statement No. 71 amends GASB Statement No. 68 to require that at transition, the Road Commission recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

NOTE K—RESTATEMENT BEGINNING NET POSITION

During the current fiscal year, the Road Commission adopt GASB Statement Number 68, *Accounting and Financial Reporting for Pensions*. Due to the implementation, the government-wide statements now include a net pension liability for unfunded pension obligations. The Statement of Net Position has been restated to record the liability as of October 1, 2014.

	Governmental Activities
Beginning Net Position--October 1, 2014	\$ 30,554,533
Less net pension liability recorded for the implementation of GASB 68	(5,136,547)
Less prepaid net pension obligation	(900,000)
Add deferred outflows or resources recorded for the implementation of GASB 68	572,197
Restated Beginning Net Position--October 1, 2014	\$ 25,090,183

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE M—UPCOMING REPORTING CHANGE

In February 2015, the GASB issued GASB statement No. 72, *Fair Value Measurement and Application*. The requirement of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact if fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the Road Commission's 2015-2016 fiscal year.

Delta County Road Commission  
 Required Supplementary Information  
 Schedule of Changes in the Road Commission's  
 Net Pension Liability and Related Ratios\*  
 For the Fiscal Year Ending September 30, 2015

	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 114,334
Interest	848,222
Benefit payments including employee refunds	<u>(633,049)</u>
Net Change in Total Pension Liability	329,507
Total Pension Liability--Beginning	<u>10,540,833</u>
Total Pension Liability--Ending	<u><u>\$ 10,870,340</u></u>
Plan Fiduciary Net Position	
Contributions--employer	\$ 660,540
Contributions--employees	7,208
Net Investment Income	339,991
Benefit payments including employee refunds	(633,049)
Administrative expense	<u>(12,525)</u>
Net Change in Plan Fiduciary Net Position	362,165
Plan Fiduciary Net Position--Beginning	<u>5,404,286</u>
Plan Fiduciary Net Position--Ending	<u><u>\$ 5,766,451</u></u>
Employer Net Pension Liability	<u><u>\$ 5,103,889</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	53%
Covered Employee Payroll	\$ 1,306,931
Employer's Net Pension Liability as a percentage of covered employee payroll	391%

Notes to schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2014 valuation.

Above dates are based on measurement date, which may not necessarily tie to the fiscal year.

\*10-year schedule as required by GASB Statement No. 68 will be built prospectively upon implementation of the standard.

Delta County Road Commission  
 Required Supplementary Information  
 Schedule of Road Commission's Contributions  
 For the Fiscal Year Ending September 30, 2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarial Determined Contributions*	\$ 374,906	\$ 360,540	\$ 554,186	\$ 548,582	\$ 524,149	\$ 401,915	\$ 331,276	\$ 314,349	\$ 311,485	\$ 294,226
Contributions in Relation to the actuarially determined contribution	874,906	660,540	554,186	548,582	524,149	401,915	331,276	314,349	311,485	294,226
Contribution deficiency (excess)	<u>\$ (500,000)</u>	<u>\$ (300,000)</u>	<u>\$ -</u>							
Covered Employee Payroll	\$ 1,282,431	\$ 1,306,931	\$ 1,235,451	\$ 1,188,423	\$ 1,189,429	\$ 1,372,914	\$ 1,455,356	\$ 1,382,882	\$ 1,482,004	\$ 1,422,368
Contributions as a percentage of covered employee payroll	68%	51%	45%	46%	44%	29%	23%	23%	21%	21%

Notes to Schedule:

Actuarial valuation information relative to the determination of contributions:

Valuation Date Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3 to 4%
Salary Increases	4.5%, including inflation
Investment rate of return	8.0%
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Female / 50% Male 1994 Group Annuity Mortality Table

**DELTA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND  
SCHEDULE OF REVENUES--BUDGET AND ACTUAL  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 11,800	\$ 11,305	\$ 11,305	\$ -
Federal Grants				
Contracted				
Surface Transportation Program	50,000	323,476	325,618	2,142
Critical Bridges	2,942,000	1,356,492	1,560,644	204,152
Federal FLAP Grant Funds	571,382	309,724	431,615	121,891
Economic Development "D" Funds	-	53	17	(36)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,600,000	2,500,000	2,579,945	79,945
Local Road	1,020,000	1,115,000	1,115,259	259
Urban Primary	170,000	170,000	173,159	3,159
Urban Local	60,000	65,000	69,672	4,672
Snow Removal	33,000	33,337	33,337	-
Critical Bridge	221,134	254,280	292,621	38,341
Economic Development Fund				
Target Industries (A)	140,000	179,508	179,508	-
Rural Primary (D)	8,000	87,967	88,556	589
Forest Road (E)	40,000	80,000	80,000	-
PRIP Funds	653,000	639,058	639,058	-
Other State Grants	-	350,414	350,414	-
Contributions--Local Units				
Townships	600,000	489,852	487,852	(2,000)
Other Governmental Contributions	-	51,051	51,051	-
Charges for Services				
State Trunkline Maintenance	1,200,000	1,498,225	1,488,597	(9,628)
State Trunkline Non-Maintenance	35,000	182,450	181,226	(1,224)
Salvage Sales	6,000	6,556	6,556	-
Interest and Rents				
Interest Earned	9,000	4,630	4,651	21
Other Revenue				
Contributions from Other Sources	-	45,100	45,100	-
Other Non Road Services	50,000	42,500	46,450	3,950
Gain on Timber Sales	-	8,986	8,986	-
Gain on Equipment Disposals	130,000	87,211	87,211	-
<b>Total Revenues</b>	<b>10,560,316</b>	<b>9,902,175</b>	<b>\$ 10,348,408</b>	<b>\$ 446,233</b>
Fund Balance--October 1, 2015	3,502,706	3,502,706		
<b>Total Budget</b>	<b>\$ 14,063,022</b>	<b>\$ 13,404,881</b>		

**DELTA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND  
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,466,000	\$ 1,187,374	\$ 1,138,058	\$ 49,316
Routine and Preventive Maintenance	1,000,000	1,457,827	1,456,261	1,566
Local Road				
Preservation/Structural Improvements	550,000	595,629	575,362	20,267
Routine and Preventive Maintenance	1,000,000	1,770,775	1,770,669	106
Primary Road Structure				
Preservation/Structural Improvements	3,062,227	1,701,302	2,126,517	(425,215)
Routine and Preventive Maintenance	-	2,275	2,263	12
Local Road Structure				
Preservation/Structural Improvements	801,400	553,208	636,805	(83,597)
Routine and Preventive Maintenance	-	5,700	5,688	12
State Trunkline				
Maintenance	1,200,000	1,453,000	1,443,520	9,480
Non-Maintenance	35,000	182,450	181,226	1,224
Maintenance for Other Units	50,000	42,500	46,449	(3,949)
Equipment Expense--Net	(255,000)	189,605		
Direct			\$ 1,038,920	
Indirect			624,852	
Operating			248,634	
Less: Equipment Rentals			<u>(1,618,045)</u>	294,361
				(104,756)
Distributive Expense	1,780,000	-	-	-
Administrative Expense--Net	105,000	339,137		
Administrative Expense			543,133	
Less: Overhead--State Trunkline			(202,192)	
Overhead--Other			<u>(6,309)</u>	334,632
				4,505
Capital Outlay--Net	368,000	(24,659)		
Capital Outlay			650,163	
Less: Depreciation Credits			(632,231)	
Equipment Retirements			<u>(42,591)</u>	(24,659)
				-
Debt Service				
Principal	195,000	195,000	195,000	-
Interest	170,159	170,159	170,159	-
Total Expenditures	11,527,786	9,821,282	<u>\$ 10,352,311</u>	<u>\$ (531,029)</u>
Fund Balance--September 30, 2015	<u>2,535,236</u>	<u>3,583,599</u>		
Total Budget	<u>\$ 14,063,022</u>	<u>\$ 13,404,881</u>		

**DELTA COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 5,770,748	\$ 2,763,168	\$ 1,814,492	\$ 10,348,408
Total Expenditures	<u>5,378,253</u>	<u>3,230,928</u>	<u>1,743,130</u>	<u>10,352,311</u>
Excess of Revenues Over (Under) Expenditures	<u>392,495</u>	<u>(467,760)</u>	<u>71,362</u>	<u>(3,903)</u>
Other Financing Sources and (Uses) Optional Transfers	<u>(500,000)</u>	<u>500,000</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>(500,000)</u>	<u>500,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(107,505)	32,240	71,362	(3,903)
Fund Balance--October 1, 2014	<u>1,945,862</u>	<u>403,466</u>	<u>1,153,378</u>	<u>3,502,706</u>
Fund Balance--September 30, 2015	<u><u>\$ 1,838,357</u></u>	<u><u>\$ 435,706</u></u>	<u><u>\$ 1,224,740</u></u>	<u><u>\$ 3,498,803</u></u>

**DELTA COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF REVENUES  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 11,305	\$ 11,305
Federal Grants				
Contracted				
Surface Transportation Program	325,618	-	-	325,618
Critical Bridges	1,145,023	415,621	-	1,560,644
Federal FLAP Grant Funds	431,615	-	-	431,615
Economic Development "D" Funds	17	-	-	17
State Grants				
Michigan Transportation Fund				
Engineering	6,982	3,018	-	10,000
Allocation	2,579,945	1,115,259	-	3,695,204
Urban	173,159	69,672	-	242,831
Snow Removal	-	33,337	-	33,337
Critical Bridge	214,692	77,929	-	292,621
Economic Development Fund				
Target Industries (A)	-	179,508	-	179,508
Rural Primary (D)	88,556	-	-	88,556
Forest Road (E)	80,000	-	-	80,000
PRIP Funds	639,058	-	-	639,058
Other State Grants	-	350,414	-	350,414
Contributions From Local Units				
Townships	-	487,852	-	487,852
Other Governmental Contributions	-	-	51,051	51,051
Charges for Services				
State Trunkline Maintenance	-	-	1,488,597	1,488,597
State Trunkline Non-Maintenance	-	-	181,226	181,226
Salvage Sales	-	-	6,556	6,556
Interest and Rents				
Interest Earned	2,558	558	1,535	4,651
Other Revenue				
Contributions from Other Sources	-	30,000	15,100	45,100
Other Non Road Services	-	-	46,450	46,450
Gain on Timber Sales	-	-	8,986	8,986
Gain on Equipment Disposal	83,525	-	3,686	87,211
<b>Total Revenue</b>	<b>\$ 5,770,748</b>	<b>\$ 2,763,168</b>	<b>\$ 1,814,492</b>	<b>\$10,348,408</b>

**DELTA COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,138,058	\$ -	\$ -	\$ 1,138,058
Routine and Preventive Maintenance	1,456,261	-	-	1,456,261
Local Road				
Preservation/Structural Improvements	-	575,362	-	575,362
Routine and Preventive Maintenance	-	1,770,669	-	1,770,669
Primary Road Structures				
Preservation/Structural Improvements	2,126,517	-	-	2,126,517
Routine and Preventive Maintenance	2,263	-	-	2,263
Local Road Structures				
Preservation/Structural Improvements	-	636,805	-	636,805
Routine and Preventive Maintenance	-	5,688	-	5,688
State Trunkline				
Maintenance	-	-	1,443,520	1,443,520
Non-Maintenance	-	-	181,226	181,226
Maintenance for Other Units	-	-	46,449	46,449
Equipment Expense--Net (Per Exhibit H)	81,159	112,722	100,480	294,361
Administrative Expense--Net (Per Exhibit H)	204,950	129,682	-	334,632
Capital Outlay--Net (Per Exhibit H)	3,886	-	(28,545)	(24,659)
Debt Service				
Principal	195,000	-	-	195,000
Interest	170,159	-	-	170,159
Total Expenditures	<u>\$ 5,378,253</u>	<u>\$ 3,230,928</u>	<u>\$ 1,743,130</u>	<u>\$ 10,352,311</u>



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

NICK A. KHOURI  
STATE TREASURER

February 11, 2016

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

Independent Auditor's Report

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 the 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, 2015, and the related notes to the financial statements, which collectively comprise the Delta County Road Commission's basic financial statements, and have issued our report thereon dated February 11, 2016.

**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 that is required to be reported under Government Auditing Standards, and which is described in the accompanying Schedule of Findings and Responses as Finding 2015-001.

### **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.

Sincerely,



Cary Jay Vaughn, CPA, CGFM  
Audit Manager

Local Government Financial Services Division



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

February 11, 2016

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 the major fund of the Delta County Road Commission, a component unit of Delta County, Michigan, for the fiscal year ended September 30, 2015, and have issued our report thereon dated February 11, 2016. 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 September 18, 2015, 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 November 30, 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. As described in Note J, during the year ended September 30, 2015, the Road Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement of net position now includes a liability for unfunded pension costs on the government-wide statements. 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.

The most sensitive estimates affecting the governmental activities in the government-wide statements relate to depreciation, the net pension liability and the estimate of the current portion of vested employee benefits. 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. For the pension, estimates and assumptions are determined by MERS and its actuary, based on the Road Commission's negotiations with its bargaining units and resolutions of the Board of County Road Commissioners. 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, the net pension liability 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 February 11, 2016.

#### 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.

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Local Government Financial Services Division

DELTA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended September 30, 2015

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 2015-001*

*Condition:* During the fiscal year ended September 30, 2015, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Structure--Preservation / Structural Improvements	\$ 1,701,302	\$ 2,126,517	\$ (425,215)
Local Road Structure--Preservation / Structural Improvements	553,208	636,805	(83,597)
Maintenance for Other Units	42,500	46,449	(3,949)
Equipment Expense--Net	189,605	294,361	(104,756)

*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.