

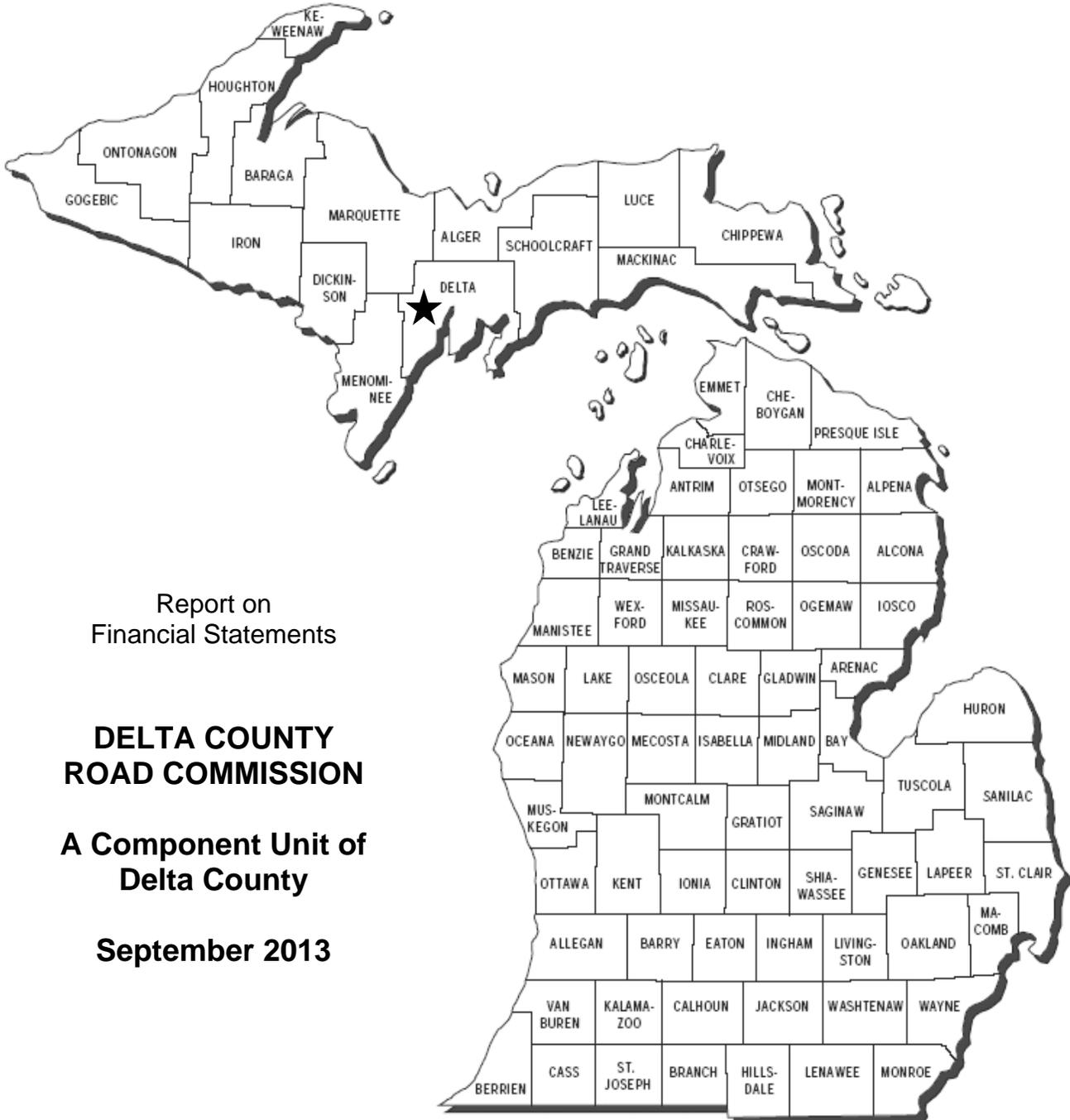
STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

R. KEVIN CLINTON

State Treasurer



Report on
Financial Statements

DELTA COUNTY ROAD COMMISSION

A Component Unit of
Delta County

September 2013

DELTA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Randy Bjork
Chairman

Dennis Stanek
Vice-Chairman

Mike Larrabee
Member

Bob Aschbacher
Member

Peter Stropich
Member

Jody Norman
Interim Manager

Amy J. Reinhardt
Finance Director

Pamela Gustafson
Office Clerk

COUNTY POPULATION--2010
37,069

STATE EQUALIZED VALUATION--2012
\$1,413,634,884



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

January 27, 2014

Board of County Road Commissioners
Delta County Road Commission
3000 32nd Avenue North
Escanaba, Michigan 49829-9315

Independent Auditor's Report

Dear Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Delta County Road Commission, a component unit of Delta County, Michigan, as of and for the fiscal year ended September 30, 2013, 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously 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, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits G and H and the schedule of funding progress for pensions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with the sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delta County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits I through K are 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, on our consideration of Delta County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delta County Road Commission's internal control over financial reporting and compliance.



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

DELTA COUNTY ROAD COMMISSION

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DELTA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2013

Our discussion and analysis of the Delta County Road Commission's (Road Commission) financial performance provides an overview of its financial activities for the fiscal year ended September 30, 2013. 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, 2013

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 2.87% or \$793,944 from \$27,621,231 to \$28,415,175 for the year ended September 30, 2013. The net position and change in net position are summarized below.

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

The current and other assets increased by \$844,652 which consists primarily as a result of reducing expenditures by approximate 15% (\$1,127,806) while revenue changed by only 6.95% (\$498,654) as compared with the prior fiscal year. The increase is due primarily to reductions in road infrastructure (preservation/structural improvement projects) as well as maintenance projects completed during fiscal year 2013.

DELTA COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2013**

Net position as of the fiscal year ended September 30, 2013, compared to the prior year, are as follows:

	Governmental Activities 09/30/12	Governmental Activities 09/30/13	Variance	Percentage
Current and Other Assets	\$ 3,806,792	\$ 4,651,444	\$ 844,652	22.19%
Net Capital Assets	<u>28,897,516</u>	<u>28,923,554</u>	<u>26,038</u>	<u>0.09%</u>
Total Assets	<u>32,704,308</u>	<u>33,574,998</u>	<u>870,690</u>	<u>2.66%</u>
Current Liabilities	392,243	681,841	289,598	73.83%
Noncurrent Liabilities	<u>4,690,834</u>	<u>4,477,982</u>	<u>(212,852)</u>	<u>-4.54%</u>
Total Liabilities	<u>5,083,077</u>	<u>5,159,823</u>	<u>76,746</u>	<u>1.51%</u>
Net Position				
Investment in Capital Assets	24,727,516	24,933,554	206,038	0.83%
Restricted	<u>2,893,715</u>	<u>3,481,621</u>	<u>587,906</u>	<u>20.32%</u>
Total Net Position	<u>\$ 27,621,231</u>	<u>\$ 28,415,175</u>	<u>\$ 793,944</u>	<u>2.87%</u>

DELTA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2013

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

	<u>2012</u>	<u>2013</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Charges for Services	\$ 1,332,222	\$ 1,724,002	\$ 391,780	29.41%
Operating Grants and Contributions	3,841,404	3,828,266	(13,138)	-0.34%
Capital Grants and Contributions	1,997,102	975,235	(1,021,867)	-51.17%
General Revenue				
Gain on Sale of Land / Building	(1,343)	-	1,343	100.00%
Gain on Equipment Disposal	1,514	144,742	143,228	9460.24%
Total Revenue	<u>7,170,899</u>	<u>6,672,245</u>	<u>(498,654)</u>	<u>-6.95%</u>
Expenses				
Primary Routine and Preventive Maintenance	2,128,067	1,183,145	(944,922)	-44.40%
Local Routine and Preventive Maintenance	1,655,443	1,327,364	(328,079)	-19.82%
State Trunkline Maintenance	1,025,971	1,413,555	387,584	37.78%
Net Equipment Expense	280,461	223,296	(57,165)	-20.38%
Net Administrative Expense	456,005	378,743	(77,262)	-16.94%
Maintenance for Other Units	196,295	128,144	(68,151)	-34.72%
Infrastructure Depreciation Expense	1,186,754	1,242,258	55,504	4.68%
Compensated Absences	(22,098)	(738)	21,360	-96.66%
Other Net Pension Obligations	(200,000)	(200,000)	-	0.00%
Interest Expense	191,144	183,962	(7,182)	-3.76%
Refunding--Cost of Issuance	(1,428)	(1,428)	-	0.00%
Total Expenses	<u>6,896,614</u>	<u>5,878,301</u>	<u>(1,018,313)</u>	<u>-14.77%</u>
Change in Net Position	<u>274,285</u>	<u>793,944</u>	<u>519,659</u>	<u>189.46%</u>
Ending Net Position	<u>\$ 27,621,231</u>	<u>\$ 28,415,175</u>	<u>\$ 793,944</u>	<u>2.87%</u>

The total revenue decreased by 6.95% from 2012 to 2013. The most significant variance was decreased capital grants and contributions, due to having fewer Federal/State Aid Projects than the Road Commission did in FY 2012 as well as a decrease to revenue from the townships for road improvement projects due to the fact that the Road Commission had less to contribute to our matching program after winter maintenance costs were covered.

Total expenses decreased by 14.77% from 2012 to 2013. The most significant decreases were due to less Routine & Preventive Maintenance being done than in Fiscal Year 2012 – there were fewer Federal/State Aid projects on the Primary system and the township local road maintenance matching program was cut short due to spending more on winter maintenance which contributed to there being less projects completed on the Local system.

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, 2013**

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, 2013, the fund balance of the General Operating Fund increased by \$384,168 compared to a decrease of \$244,984 in the fund balance for the fiscal year ended September 30, 2012. Total operating revenues were \$6,672,245, a decrease of \$498,654 as compared to last year. This change in revenues resulted from a decrease 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 2012.

Total expenditures were \$6,288,077, a decrease of \$1,127,806 in comparison to last year. This change in expenditures is primarily the result of a decrease in primary preservation/structural improvements and local road structure preservation/structural improvements for new road projects mainly due to having fewer Federal / State Aid funded projects in 2013, after having a large project in Fiscal Year 2012.

	<u>2012</u>	<u>2013</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 14,235	\$ 11,422	\$ (2,813)	-19.76%
Federal Grants	932,227	565,819	(366,408)	-39.30%
State Grants	4,269,273	3,923,569	(345,704)	-8.10%
Contributions From Local Units	520,889	275,385	(245,504)	-47.13%
Charges for Services	1,139,819	1,578,736	438,917	38.51%
Interest and Rents	23,572	14,308	(9,264)	-39.30%
Other Revenue	270,884	303,006	32,122	11.86%
Total Revenues	<u>7,170,899</u>	<u>6,672,245</u>	<u>(498,654)</u>	<u>-6.95%</u>
Expenditures				
Public Works	6,977,222	5,246,755	(1,730,467)	-24.80%
Capital Outlay	71,028	675,788	604,760	851.44%
Debt Service	367,633	365,534	(2,099)	-0.57%
Total Expenditures	<u>7,415,883</u>	<u>6,288,077</u>	<u>(1,127,806)</u>	<u>-15.21%</u>
Excess of Expenditures Over Revenues	(244,984)	384,168	629,152	256.81%
Fund Balance--Beginning	<u>3,006,076</u>	<u>2,761,092</u>	<u>(244,984)</u>	<u>-8.15%</u>
Fund Balance--Ending	<u>\$ 2,761,092</u>	<u>\$ 3,145,260</u>	<u>\$ 384,168</u>	<u>13.91%</u>

DELTA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2013

Budgetary Highlights

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

The original revenue budget for 2013 was \$7,054,800, which was \$382,555 more than the actual revenue received for the year. The final amended budget was \$6,653,988, which was \$18,257 less than the actual revenue received. This was mostly due to MTF funds coming in higher than estimated for the two months received after 9/30/13, and the change in the budgeted revenues was due to road projects that were to be funded from outside sources which had to be delayed into FY 2014.

The Road Commission's original expenditure budget was projected at \$7,979,034, while actual expenditures were \$6,288,077 resulting in actual expenditures being less than budgeted by \$1,690,957. There were budget amendments made throughout the year. However, actual expenditures were less than the final amended budget by \$9,246. This was due to over-estimating expenditures at fiscal year-end when the final amendment had to be approved, and the difference in the budgeted expenses were due to capital outlay purchases and road projects that had to be delayed into FY 2014.

DELTA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2013

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2013, the Road Commission had \$28,923,554 invested in capital assets as follows:

	<u>09/30/12</u>	<u>09/30/13</u>	<u>Percentage of Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 1,384,001	\$ 1,385,001	0.07%
Construction in Progress	79,182	140,052	76.87%
Infrastructure--Land and Improvements	<u>3,615,471</u>	<u>3,770,407</u>	<u>4.29%</u>
Subtotal	<u>5,078,654</u>	<u>5,295,460</u>	<u>4.27%</u>
Capital Assets Being Depreciated			
Buildings	6,878,039	7,521,889	9.36%
Road Equipment	7,224,040	6,497,117	-10.06%
Shop Equipment	138,841	165,993	19.56%
Office Equipment	104,386	104,386	0.00%
Engineer's Equipment	40,373	40,373	0.00%
Infrastructure--Bridges	3,195,277	3,195,277	0.00%
Infrastructure--Roads	<u>21,652,485</u>	<u>22,574,595</u>	<u>4.26%</u>
Subtotal	<u>39,233,441</u>	<u>40,099,630</u>	<u>2.21%</u>
Total Capital Assets	44,312,095	45,395,090	2.44%
Total Accumulated Depreciation	<u>(15,414,579)</u>	<u>(16,471,536)</u>	<u>6.86%</u>
Total Net Capital Assets	<u>\$ 28,897,516</u>	<u>\$ 28,923,554</u>	<u>0.09%</u>

The Road Commission acquired and placed in service infrastructure and other assets during the current year in the amount of \$1,137,916. The Road Commission will begin depreciating infrastructure assets placed in service during the fiscal year ended September 30, 2013 in the following fiscal year. The infrastructure is financed through Federal, State and local contributions.

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

Various Resurfacing Projects and Related Land/Right of Way	\$ 1,078,046
Road Construction in Progress	60,870
Buildings and Improvements	643,850
Other Various Equipment	<u>30,938</u>
Total Additions	<u>\$ 1,813,704</u>

DELTA COUNTY ROAD COMMISSION

**MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2013**

Debt

There were no new installment purchase agreements entered into during 2013; all the equipment was acquired with Road Commission funds. There is \$3,990,000 outstanding on the 2007 Refunding Bonds at September 30, 2013 as follows:

	<u>Balances 09/30/12</u>	<u>Balances 09/30/13</u>
2007 MTF Refunding Bonds	<u>\$ 4,170,000</u>	<u>\$ 3,990,000</u>
Total	<u><u>\$ 4,170,000</u></u>	<u><u>\$ 3,990,000</u></u>

Economic Factors and Next Year’s Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2014 budget. One of the factors is the economy. The Road Commission receives approximately 57% of its revenue from the fuel tax collected in 2013, which is up 5% compared to 52% of total revenue in 2012. That change is mostly due to the Road Commission having less revenue from other sources in 2013 – there was only a 2% increase in the total fuel tax received in 2013 from 2012. The Road Commission received approximately 4% of its revenues from township contributions during 2013. 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 as well as how much the Road Commission has available to match the township funds for road projects – in 2013 we didn’t have as much available due to higher winter maintenance costs. During 2014, we expect to receive \$1,714,600 (NOT including Forest Funds Allocation or MTF Allocation) in Federal and State Aid for road projects.

The above items were considered when adopting the budget for 2014. Total projected revenues for fiscal year 2014 are \$6,973,620 while projected expenditures are \$7,688,718. We have approved expenditures to exceed revenues mainly due to capital outlay expenditures (purchase of a Motor Grader that was bid out in FY 2013 but won’t be delivered and paid for until FY 2014 as well as the refurbishing of one truck) and capital preventative maintenance work which was not able to be completed as planned in FY 2013; therefore these expenditures are now being planned for Fiscal Year 2014.

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.

DELTA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2013

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 32nd Avenue North, Escanaba, Michigan 49829.

DELTA COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION
September 30, 2013

EXHIBIT A

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Curent Assets	
Cash	\$ 1,872,461
Accounts Receivable	
Due From State	771,136
Due on County Road Agreements	65,718
Sundry Accounts	46,417
Inventories	1,234,751
Prepaid Expenses	44,581
Prepaid Net Pension Obligation	600,000
Non-Current Assets	
Restricted Cash	380
Long-Term Contract Receivable	16,000
Capital Assets Nondepreciating	5,295,460
Capital Assets -Net of Accumulated Depreciation	23,628,094
Total Assets	<u>33,574,998</u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	186,156
Due to State of Michigan	86
Accrued Liabilities	24,251
Accrued Interest Payable	76,400
Non-Current Liabilities	
Advance From State	300,743
Bonds Payable Due Within One year	185,000
Bonds Payable Due in More Than One Year	3,805,000
Vested Employee Benefits Payable	187,239
Total Liabilities	<u>4,764,875</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unamortized Refunding Bond Premiums	19,985
Unearned Revenue	
Forest Road Funds	374,963
Total Deferred Inflows of Resources	<u>394,948</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	24,933,554
Restricted for County Roads	3,481,621
Total Net Position	<u>\$ 28,415,175</u>

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

**DELTA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2013**

EXHIBIT B

	Governmental Activities
Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,183,145
Local Road Routine and Preventive Maintenance	1,327,364
State Trunkline Maintenance	1,413,555
Net Equipment Expense	223,296
Net Administrative Expense	378,743
Maintenance for Other Units	128,144
Infrastructure Depreciation	1,242,258
Compensated Absences	(738)
Other Net Pension Obligations	(200,000)
Interest Expense	183,962
Refunding--Cost of Issuance	(1,428)
Total Program Expenses	<u>5,878,301</u>
Program Revenue	
Charges for Services	
License and Permits	11,422
Charges for Services	1,534,412
Other Non-Road Services	178,168
Operating Grants and Contributions	
Michigan Transportation Funds	3,789,538
Contributions	24,420
Investment Earnings	14,308
Capital Grants and Contributions	
Federal Grants	565,819
State Grants	134,031
Contributions	275,385
Total Program Revenue	<u>6,527,503</u>
Net Program Revenue	<u>649,202</u>
General Revenue	
Gain on Equipment Disposal	144,742
Total General Revenues	<u>144,742</u>
Change in Net Position	793,944
Net Position	
Beginning of Year	<u>27,621,231</u>
End of Year	<u><u>\$ 28,415,175</u></u>

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

**DELTA COUNTY ROAD COMMISSION
BALANCE SHEET--GOVERNMENTAL FUND
September 30, 2013**

EXHIBIT C

	General Operating Fund
<u>ASSETS</u>	
Current Assets	
Cash	\$ 1,872,461
Accounts Receivable	
State Trunkline Maintenance	92,867
Michigan Transportation Fund	644,995
State--Other	33,274
Sundry Accounts	46,417
Due on County Road Agreements	65,718
Inventories	
Road Materials	990,559
Equipment Parts and Materials	244,192
Prepaid Expenses	44,581
Noncurrent Assets	
Long Term Contracts Receivable	16,000
Restricted Cash	380
	<hr/>
Total Assets	\$ 4,051,444
	<hr/> <hr/>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 186,156
Due to State	86
Accrued Liabilities	24,252
Advances	
State Trunkline Equipment Purchase	218,810
State Trunkline Maintenance	81,933
	<hr/>
Total Liabilities	511,237
	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unamortized Refunding Bond Premiums	19,985
Unearned Revenue--Forest Road Funds	374,962
	<hr/>
Total Deferred Inflows of Resources	394,947
	<hr/>
Fund Equity	
Fund Balance	
Nonspendable:	
Inventory	1,234,751
Prepays	44,581
Long Term Contracts Receivable	16,000
Restricted for Road Operations	1,849,928
	<hr/>
Total Fund Equity	3,145,260
	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Equity	\$ 4,051,444
	<hr/> <hr/>

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, 2013**

EXHIBIT D

Total Governmental Fund Balance		\$ 3,145,260
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.		28,923,554
Long-term liabilities are not due and payable in the current period and are not reported in the fund.		
Bonds Payable	\$ (3,990,000)	
Compensated Absences	<u>(187,239)</u>	<u>(4,177,239)</u>
Payments toward underfunded pension liabilities is an expenditure in the governmental funds, but not in the Statement of Activities (where it is recorded as a prepaid).		600,000
The interest is accrued to the end of the year, but is not due until the following year.		<u>(76,400)</u>
Net Position of Governmental Activities		<u><u>\$28,415,175</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, 2013**

EXHIBIT E

	General Operating Fund
Revenues	
Licenses and Permits	\$ 11,422
Federal Grants	565,819
State Grants	3,923,569
Contributions From Local Units	275,385
Charges for Services	1,578,736
Interest and Rents	14,308
Other Revenue	303,006
	<hr/>
Total Revenues	6,672,245
	<hr/>
Expenditures	
Public Works	5,246,755
Capital Outlay	675,788
Debt Service	365,534
	<hr/>
Total Expenditures	6,288,077
	<hr/>
Excess of Revenues Over (Under) Expenditures	384,168
Fund Balance--October 1, 2012	2,761,092
	<hr/>
Fund Balance--September 30, 2013	\$ 3,145,260
	<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, 2013**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Fund \$ 384,168

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. 26,038

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 Assets. 180,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense, change in net pension obligation) 203,738

Change in Net Position of Governmental Activities \$ 793,944

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, 2013

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Delta County Road Commission (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 was 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 and property taxes would be levied under the taxing authority of the county, as approved by the county electors. 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 capital assets debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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, 2013

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, 2013

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.

Restricted Cash

Funds classified as restricted cash at September 30, 2013, consist of \$380 to be used for debt retirement.

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, 2013

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

Long-Term Obligations

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

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts each pay period, depending on the number of years of service of the employee. Employees can accumulate vacation between 250 and 300 hours, depending on the years of service, to be used at their discretion.

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

Use of Estimates

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

Unearned Revenue

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

Fund Balance Classifications

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

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. For the Road Commission, the non-spendable balance reflects the inventory on hand, prepaid expenses and long term contracts receivable.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2013

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

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

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

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

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

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

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Although the actual 2013 expenditures were within the final amended budget by a total of \$9,246, some expenditure activities exceeded the amounts appropriated.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

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

Expenditures by activity that exceeded appropriations are as follows:

	Final Budget	Actual	Variance
Primary Road Structure--Preservation/Structural Improvements	\$ 1,595	\$ 2,425	\$ (830)
State Trunkline Maintenance	1,310,000	1,316,694	(6,694)
Maintenance for Other Units	125,500	128,144	(2,644)

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

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

	General Operating Fund
Cash	\$ 1,872,461
Restricted Cash	380
Total	\$ 1,872,841

Restricted cash at September 30, 2013, consists of \$380 in interest earned on the separate bank account that is used for the retirement of the bond debt.

DELTA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,872,641
Petty Cash and Cash on Hand	<u>200</u>
Total	<u>\$ 1,872,841</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 nonnegotiable 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 \$2,059,520 as of September 30, 2013, of which \$250,380 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

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

Disclosures Relating to Interest Rate Risk

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

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

As of September 30, 2013, the Road Commission did not have any investments.

Concentration of Credit Risk

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

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2013

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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

Custodial Credit Risk

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

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

NOTE D--DEFERRED COMPENSATION PLAN

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

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

NOTE E--CAPITAL ASSETS

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

	Account Balances 10/1/2012	Additions	Deductions	Account Balances 09/30/13
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 1,384,001	\$ 1,000	\$ -	\$ 1,385,001
Construction in Progress--Infrastructure	79,182	60,870	-	140,052
Infrastructure Land Improvements	<u>3,615,471</u>	<u>154,936</u>	<u>-</u>	<u>3,770,407</u>
Subtotal	<u>5,078,654</u>	<u>216,806</u>	<u>-</u>	<u>5,295,460</u>
Capital Assets Being Depreciated				
Buildings and Improvements	6,878,039	643,850	-	7,521,889
Road Equipment	7,224,041	3,786	730,709	6,497,117
Shop Equipment	138,841	27,152	-	165,993
Office Equipment	104,386	-	-	104,386
Engineers' Equipment	40,373	-	-	40,373
Infrastructure--Bridges	3,195,277	-	-	3,195,277
Infrastructure--Roads	<u>21,652,485</u>	<u>922,110</u>	<u>-</u>	<u>22,574,595</u>
Total	<u>39,233,441</u>	<u>1,596,898</u>	<u>730,709</u>	<u>40,099,630</u>
Less Accumulated Depreciation		-		
Buildings and Improvements	2,514,757	212,177	-	2,726,934
Road Equipment	6,648,993	292,087	697,482	6,243,598
Shop Equipment	125,683	3,668	-	129,351
Office Equipment	85,556	3,580	-	89,136
Engineers' Equipment	38,847	669	-	39,516
Infrastructure--Bridges	275,876	61,998	-	337,874
Infrastructure--Roads	<u>5,724,867</u>	<u>1,180,260</u>	<u>-</u>	<u>6,905,127</u>
Total	<u>15,414,579</u>	<u>1,754,439</u>	<u>697,482</u>	<u>16,471,536</u>
Net Capital Assets Being Depreciated	<u>23,818,862</u>	<u>(157,541)</u>	<u>33,227</u>	<u>23,628,094</u>
Total Net Capital Assets	<u>\$ 28,897,515</u>	<u>\$ 59,265</u>	<u>\$ 33,227</u>	<u>\$ 28,923,554</u>

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

Net Equipment Expense	
Direct Equipment	\$ 292,087
Indirect Equipment	183,065
Distributive Expense	19,230
Net Administrative Expenses	17,799
Infrastructure Depreciation Expense	<u>1,242,258</u>
Total Depreciation Expense	<u>\$ 1,754,439</u>

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

NOTE F--LONG-TERM DEBT

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

	<u>Balances</u> 10/01/12	<u>Additions</u>	<u>(Reductions)</u>	<u>Balances</u> 09/30/13	<u>Due Within</u> <u>One Year</u>
2007 MTF Refunding Bonds	\$ 4,170,000	\$ -	\$ (180,000)	\$ 3,990,000	\$ 180,000
Vested Employees Benefits Payable	<u>187,977</u>	<u>-</u>	<u>(738)</u>	<u>187,239</u>	<u>-</u>
Total	<u>\$ 4,357,977</u>	<u>\$ -</u>	<u>\$ (180,738)</u>	<u>\$ 4,177,239</u>	<u>\$ 180,000</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%.

The annual debt service requirements are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	185,000	179,546	364,546
2015	195,000	171,586	366,586
2016	200,000	163,193	363,193
2017	210,000	153,693	363,693
2018	220,000	142,943	362,943
2019-2023	1,275,000	564,569	1,839,569
2024-2028	1,600,000	258,296	1,858,296
2029	<u>105,000</u>	<u>7,984</u>	<u>112,984</u>
	<u>\$ 3,990,000</u>	<u>\$ 1,641,810</u>	<u>\$ 5,631,810</u>

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

NOTE F--LONG-TERM DEBT (Continued)

Vested Employee Benefits Payable (Compensated Absences)

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts each pay period, depending on the number of years of service of the employee. Employees can accumulate vacation between 250 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.

NOTE G--EMPLOYEE PENSION PLANS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0%, 2.5% and 2.25% times the final average compensation (FAC) for teamster employees, the administration, managing director and the supervisory staff, respectively. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2012.

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

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

NOTE G--EMPLOYEE PENSION PLANS (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission’s competitive bargaining unit and personnel policy, which do not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate: 21.77% for teamster employees, 38.17% for administrative staff and 24.98% for supervisory staff for the calendar year ending December 31, 2012.

Annual Pension Cost

During the calendar year ended December 31, 2012, the Road Commission’s contributions totaling \$548,582 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2010. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 26 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his projected benefit.

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

In addition to the employer’s required contribution, the Road Commission contributed an additional \$200,000 toward the underfunded liability during 2013.

Three Year Trend Information

Year Ended Dec 31	Employer Annual Pension Cost (APC)	Employee Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 401,915	\$ -	100%	\$ -
2011	524,149	-	138%	(200,000)
2012	548,582	1,112	137%	(200,000)

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

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2013

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.

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

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, 2013, the Federal Grants received and expended by the Road Commission were \$564,864 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, 2013, the Road Commission received and expended \$955 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, 2013.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

NOTE J--STATE TRUNKLINE MAINTENANCE REVENUE

The \$157,924 difference between the State trunkline maintenance revenues of \$1,474,618 and expenditures of \$1,316,694 is primarily due to the following audit results:

<u>Depreciation of Audit</u>	<u>Refunded to Road Commission</u>
State Trunkline Audit Results October, 1, 2010 through September 30, 2011	\$159,600

NOTE K--CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year, the Road Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations.

The Road Commission also adopted the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively.

Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The statement impacts the format and reporting of the balance sheet at the government-wide level and also the fund level.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2013

NOTE K--CHANGE IN ACCOUNTING PRINCIPLE (Continued)

During the year, the Road Commission also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

NOTE L--UPCOMING REPORTING CHANGE

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately-issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain non-employer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the Road Commission, this standard will be adopted for the 2014-2015 fiscal year.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the 2015-2016 fiscal year.

DELTA COUNTY ROAD COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS--PENSION
For the Fiscal Year Ended September 30, 2013

EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information--Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/2010	\$ 4,658,791	\$ 9,045,629	\$ 4,386,838	52%	\$ 1,372,914	320%
12/31/2011	5,055,817	9,311,241	4,255,424	54%	1,189,429	358%
12/31/2012	5,384,450	9,819,895	4,435,445	55%	1,188,423	373%

**DELTA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2013**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 6,800	\$ 11,400	\$ 11,422	\$ 22
Federal Grants				
Contracted				
Surface Transportation Program	440,000	381,453	381,453	-
Economic Development D Funds	210,000	183,410	183,410	-
Bridges	1,060,000			
Negotiated				
US Forest Funds	-	956	956	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,400,000	2,462,000	2,468,718	6,718
Local Road	1,020,000	1,053,000	1,053,147	147
Urban Primary	160,000	160,000	160,110	110
Urban Local	60,000	65,000	65,344	344
Snow Removal	40,000	32,219	32,219	-
Economic Development Fund				
Rural Primary (D)	150,000	134,031	134,031	-
Contributions--Local Units				
Townships	300,000	275,000	275,385	385
Charges for Services				
State Trunkline Maintenance	960,000	1,467,600	1,474,618	7,018
State Trunkline Non-Maintenance	25,000	102,000	96,861	(5,139)
Salvage Sales	3,000	7,257	7,257	-
Interest and Rents				
Interest Earned	15,000	14,000	14,308	308
Other Revenue				
Private Contributions	-	24,420	24,420	-
Other Non Road Services	25,000	125,500	133,844	8,344
Gain on Equipment Disposals	170,000	144,742	144,742	-
Total Revenues	<u>7,054,800</u>	<u>6,653,988</u>	<u>\$ 6,672,245</u>	<u>\$ 18,257</u>
Fund Balance--October 1, 2012	<u>2,761,092</u>	<u>2,761,092</u>		
Total Budget	<u>\$ 9,815,892</u>	<u>\$ 9,415,080</u>		

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

**DELTA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2013**

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 899,500	\$ 899,000	\$ 898,724	\$ 276
Routine and Preventive Maintenance	1,000,000	1,172,000	1,171,387	613
Local Road				
Preservation/Structural Improvements	1,613,000	185,000	184,308	692
Routine and Preventive Maintenance	1,000,000	1,295,000	1,289,709	5,291
Primary Road Structure				
Preservation/Structural Improvements	-	1,595	2,425	(830)
Routine and Preventive Maintenance	-	12,331	11,758	573
Local Road Structure				
Preservation/Structural Improvements	-	53,531	52,459	1,072
Routine and Preventive Maintenance	-	41,226	37,655	3,571
State Trunkline				
Maintenance	960,000	1,310,000	1,316,694	(6,694)
Non-Maintenance	25,000	102,000	96,861	5,139
Maintenance for Other Units	25,000	125,500	128,144	(2,644)
Equipment Expense--Net	65,000	210,702		
Direct			\$ 759,632	
Indirect			597,389	
Operating			342,222	
Less: Equipment Rentals			<u>(1,490,363)</u>	1,822
Distributive Expense	1,450,000	-	-	-
Administrative Expense--Net	275,000	379,107		
Administrative Expense			565,588	
Less: Overhead--State Trunkline			(181,023)	
Overhead--Other			<u>(5,822)</u>	364
Capital Outlay--Net	300,000	144,797		
Capital Outlay			675,788	
Less: Depreciation Credits			(497,765)	
Equipment Retirements			<u>(33,227)</u>	1
Debt Service				
Principal	180,000	180,000	180,000	-
Interest	<u>186,534</u>	<u>185,534</u>	<u>185,534</u>	-
Total Expenditures	7,979,034	6,297,323	<u>\$ 6,288,077</u>	<u>\$ 9,246</u>
Fund Balance--September 30, 2013	<u>1,836,858</u>	<u>3,117,757</u>		
Total Budget	<u>\$ 9,815,892</u>	<u>\$ 9,415,080</u>		

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

**DELTA COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2013**

EXHIBIT I

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 3,481,732	\$ 1,429,210	\$ 1,761,303	\$ 6,672,245
Total Expenditures	<u>2,902,159</u>	<u>1,798,183</u>	<u>1,587,735</u>	<u>6,288,077</u>
Excess of Revenues Over (Under) Expenditures	<u>579,573</u>	<u>(368,973)</u>	<u>173,568</u>	<u>384,168</u>
Other Financing Sources and (Uses) Interfund Adjustment	<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	79,573	131,027	173,568	384,168
Fund Balance--October 1, 2012	<u>1,750,298</u>	<u>24,005</u>	<u>986,789</u>	<u>2,761,092</u>
Fund Balance--September 30, 2013	<u>\$ 1,829,871</u>	<u>\$ 155,032</u>	<u>\$ 1,160,357</u>	<u>\$ 3,145,260</u>

**DELTA COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF REVENUES
For the Fiscal Year Ended September 30, 2013**

EXHIBIT J

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits				
Permits	\$ -	\$ -	\$ 11,422	\$ 11,422
Federal Grants				
Contracted				
Surface Transportation Program	381,453	-	-	381,453
Economic Development D Funds	183,410	-	-	183,410
Negotiated				
US Forest Service Funds	956	-	-	956
State Grants				
Michigan Transportation Fund				
Engineering	7,010	2,990	-	10,000
Allocation	2,468,718	1,053,147	-	3,521,865
Urban	160,110	65,344	-	225,454
Snow Removal	-	32,219	-	32,219
Economic Development Fund				
Rural Primary (D)	134,031	-	-	134,031
Contributions From Local Units				
Townships	-	275,385	-	275,385
Charges for Services				
State Trunkline Maintenance	-	-	1,474,618	1,474,618
State Trunkline Non-Maintenance	-	-	96,861	96,861
Salvage Sales	-	-	7,257	7,257
Interest and Rents				
Interest Earned	9,070	125	5,113	14,308
Other Revenue				
Private Contributions	-	-	24,420	24,420
Other Non Road Services	-	-	133,844	133,844
Gain on Equipment Disposal	136,974	-	7,768	144,742
Total Revenue	<u>\$ 3,481,732</u>	<u>\$ 1,429,210</u>	<u>\$ 1,761,303</u>	<u>\$ 6,672,245</u>

**DELTA COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Fiscal Year Ended September 30, 2013**

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 898,724	\$ -	\$ -	\$ 898,724
Routine and Preventive Maintenance	1,171,387	-	-	1,171,387
Local Road				
Preservation/Structural Improvements	-	184,308	-	184,308
Routine and Preventive Maintenance	-	1,289,709	-	1,289,709
Primary Road Structures				
Preservation/Structural Improvements	2,425	-	-	2,425
Routine and Preventive Maintenance	11,758	-	-	11,758
Local Road Structures				
Preservation/Structural Improvements	-	52,459	-	52,459
Routine and Preventive Maintenance	-	37,655	-	37,655
State Trunkline				
Maintenance	-	-	1,316,694	1,316,694
Non-Maintenance	-	-	96,861	96,861
Maintenance for Other Units	-	-	128,144	128,144
Equipment Expense--Net (Per Exhibit H)	62,649	71,680	74,551	208,880
Administrative Expense--Net (Per Exhibit H)	216,371	162,372	-	378,743
Capital Outlay--Net (Per Exhibit H)	173,311	-	(28,515)	144,796
Debt Service				
Principal	180,000	-	-	180,000
Interest	185,534	-	-	185,534
Total Expenditures	<u>\$ 2,902,159</u>	<u>\$ 1,798,183</u>	<u>\$ 1,587,735</u>	<u>\$ 6,288,077</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

January 27, 2014

Board of County Road Commissioners
Delta County Road Commission
3000 32nd Avenue North
Escanaba, Michigan 49829-9315

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

Dear Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of the governmental activities and major fund of the Delta County Road Commission, a component unit of Delta County, Michigan, as of and for the fiscal year ended September 30, 2013, which collectively comprise the Delta County Road Commission's basic financial statements and have issued our report thereon dated January 27, 2014.

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 material weaknesses, as defined previously. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency in internal control over financial reporting, listed as Finding 2010-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delta County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying Schedule of Findings and Responses as Finding 2013-1.

Delta County Road Commission's Response to Findings

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

Purpose of this Report

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



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



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

January 27, 2014

Board of County Road Commissioners
Delta County Road Commission
3000 32nd Avenue North
Escanaba, Michigan 49829-9315

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities and major fund of the Delta County Road Commission, a component unit of Delta County, Michigan, for the fiscal year ended September 30, 2013, and have issued our report thereon dated January 27, 2014. 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 April 17, 2013, 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 its 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 inquires 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 method 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 December 2, 2013, with management.

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 K to the financial statements, the Delta County Road Commission changed accounting policies related to fund balance descriptions by adopting Statement of Governmental Accounting Standards (GASB Statement) Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB 65, *Items Previously Reported as Assets and Liabilities* in the current year. This change in accounting principle had no effect on the Statement of Net Position. We noted no transactions entered into by the Delta County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of 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. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is 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 January 27, 2014.

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



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

DELTA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2013

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.

SIGNIFICANT DEFICIENCIES

Inventory

Finding 2010-1

Condition: We randomly selected 23 various stock items from the Equipment Parts and Materials and 2 items from the Road Materials inventory accounts. We compared the inventory status report (computerized perpetual records) with the actual counts to determine the accuracy of the inventory status reports. We also compared the distribution report with the inventory status report at September 30, 2013.

Findings: We found variations in 4 of the 40 items counted (10%). The discrepancies are the result of weaknesses over the internal control for these types of inventory items. The discrepancies do not appear to be the result of inefficiencies in counting inventory due to labeling, storage, etc., as items are well labeled and storage space is orderly. The inventory status report was in balance with the distribution report.

Criteria: All assets must be safeguarded and detailed records must be reconciled to control totals.

Recommendation: We recommend that a physical inventory be performed on the faster moving parts as well as high priced inventory (blades/tires/culverts/signs) on a more frequent basis. We also recommend that the Road Commission develop better controls over physical inventory including the process of removing parts from the parts room without being properly accounted for. We noted many improvements in the inventory process from prior years and we believe that the Road Commission has begun implementing more changes that will address these controls. We believe that the Road Commission should continue to develop better controls that would eliminate discrepancies like this from occurring in the future.

Management's Response: After a change in personnel in our stock room, we are continuing to review procedures and reorganize the storage and computer numbering system for our parts categories and while we believe there has been some improvements made, we also acknowledge the need for greater improvements in the future. We believe the discrepancies are more the result of a lack of good organization in the past and the ongoing process of trying to improve on that than on control issues. We expect to see greater improvement over the next year and will continue to address these issues and work toward that improvement.

DELTA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended September 30, 2013

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 2013-1

Condition: During the fiscal year ended September 30, 2013, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Primary Road Structure--Preservation/Structural Improvement	\$ 1,595	\$ 2,425	\$ (830)
State Trunkline Maintenance	1,310,000	1,316,695	(6,695)
Maintenance for Other Units	125,500	128,144	(2,644)

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.