

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORT**

**GOGEBIC COUNTY ROAD COMMISSION
BESSEMER, MICHIGAN**

December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
Gogebic County Road Commission
Bessemer, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Gogebic 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Gogebic County Road Commission as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying financial information listed in the table of contents as Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Gogebic County Road Commission.

The Other Financial Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Financial Information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015, on our consideration of Gogebic 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 Gogebic County Road Commission's internal control over financial reporting and compliance.

Makela, Pollack & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
June 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

Management's Discussion and Analysis

This section of the Gogebic County Road Commission's (Commission) annual financial report presents our discussion and analysis of the Commission's financial performance during the year ended December 31, 2014. It is to be read in conjunction with the Commission's financial statements, which immediately follow and is intended to provide the financial results for the fiscal year ended December 31, 2014.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net position and the statement of activities. They report information about the Commission as a whole. The statements are prepared using the accrual basis of accounting which is the accounting method used by most private sector businesses. The statement of net position includes all of the Commission's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the Commission that include all services performed by the Commission. These activities are funded by Michigan Transportation Fund monies, local charges for services and federal and state grants.

The statement of net position shows the Commission's assets and liabilities. The corresponding balance between the assets and liabilities equals the net position or deficit of the Commission. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the Commission; the greater the net position figure, the healthier the financial position of the Commission generally is. It helps management determine if the Commission will be able to fund current obligations and whether the Commission will have resources available for future use.

The statement of activities shows the current year change in net position on a revenue less expense basis. It generally shows the operating results for a given year of the Commission. Any excess of revenues over expenses results in a surplus for the year that in turn increases the net position (or reduces a deficit) available to fund future needs of the Commission.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

The Commission's fund financial statements show detail of funds that are determined to be significant, called major funds. The Commission has only one fund. That fund is a special revenue fund, which is the major governmental fund. The Commission has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting and help management determine what financial resources are available on a short-term basis to fund operations.

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Commission's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Position

The following is a December 31, 2014 and 2013, condensed statement of net position with a detailed analysis of the statement below.

	<u>Governmental Activities</u>	
	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash	\$ 2,537,976	\$ 2,222,961
Investments	205,096	202,814
Accounts receivable	576,436	612,695
Inventories	502,957	473,938
Other current assets	<u>36,588</u>	<u>35,903</u>
Total Current Assets	\$ 3,859,053	\$ 3,548,311
Noncurrent Assets -		
Capital assets, net of allowances for depreciation of:		
2014 - \$10,043,274; 2013 - \$9,159,120	<u>19,652,698</u>	<u>17,108,677</u>
Total Assets	<u>\$ 23,511,751</u>	<u>\$ 20,656,988</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Position (Continued)

	<u>Governmental Activities</u>	
	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
LIABILITIES		
Accounts payable	\$ 71,074	\$ 38,994
Other current liabilities	<u>61,013</u>	<u>49,440</u>
Total Current Liabilities	\$ 132,087	\$ 88,434
Long-term liabilities, less current portion	<u>723,199</u>	<u>587,951</u>
Total Liabilities	<u>\$ 855,286</u>	<u>\$ 676,385</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue:		
Advances	\$ 409,344	\$ 364,468
Commercial Forest funds	<u>154,999</u>	<u>138,819</u>
Total Deferred Inflows of Resources	<u>\$ 564,343</u>	<u>\$ 503,287</u>
NET POSITION		
Investment in capital assets, net of related debt	\$ 19,652,698	\$ 17,108,677
Unrestricted	<u>2,439,424</u>	<u>2,368,639</u>
Total Net Position	<u>\$ 22,092,122</u>	<u>\$ 19,477,316</u>

The Commission's net position totals \$22,092,122 at December 31, 2014. Capital assets, net of related debt are \$19,652,698. This figure is derived by taking the original costs of the Commission's assets, subtracting allowances for depreciation to date less any outstanding debt related to the acquisition of capital assets. The Commission has no outstanding debt related to capital assets.

The unrestricted net position total \$2,439,424 as of December 31, 2014. This is the net accumulated results of past years' operations.

Statement of Activities

The results of operations for the Commission as a whole are reported in the statement of activities. This statement reports the changes in net position for the years ended December 31, 2014 and 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities (Continued)

	<u>Governmental Activities</u>	
	<u>Year ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1,475,895	\$ 1,418,077
Operating grants and contributions	5,109,835	4,897,974
Capital grants and contributions	<u>3,189,393</u>	<u>1,594,522</u>
	\$ 9,775,123	\$ 7,910,573
General Revenues:		
Interest	\$ 8,675	\$ 4,425
Net gain on asset disposals	<u>28,020</u>	<u>280,311</u>
	<u>\$ 36,695</u>	<u>\$ 284,736</u>
Total Revenues	\$ 9,811,818	\$ 8,195,309
Functions/Program Expenses -		
Public works	<u>7,197,012</u>	<u>7,560,513</u>
Change in Net Position	<u>\$ 2,614,806</u>	<u>\$ 634,796</u>

The Commission had an overall increase in net position of \$2,614,806 for the year ended December 31, 2014.

The Commission's revenues totaled \$9,775,123 and \$7,910,573 for the years ended December 31, 2014 and 2013, respectively. Of this amount, \$1,671,430, or 17%, was from federal grants for the year ended December 31, 2014. The amount was \$624,290, or 8%, for the year ended December 31, 2013. The federal revenues are included in the capital grants revenue category and were used to enhance the County road system. Most of the funds received and spent in 2014 were related to a spring flood that occurred in 2013 in the County.

State grants totaled \$4,187,997 or 42% of total revenues for the year ended December 31, 2014 and \$2,662,542 or 34% for the year ended December 31, 2013. The major source of state grants are monies from the Michigan Transportation Fund. These are gas tax revenues that are returned to counties for road maintenance. Other state grants received in 2014 are included in the detail of the financial statements. These revenues are split between operating grants and capital grants depending on what the monies are earmarked for.

The other major portion of revenues is rental income. The Commission charges rents based on approved State of Michigan, Department of Transportation rates to all of the projects they incur expenses on during the year. The rents are spread across all of the projects and the funding sources for the projects are charged for those costs. Rent revenues totaled \$1,870,243 or 19% and \$1,565,169 or 20% of total revenues for the years ended December 31, 2014 and 2013, respectively. The revenues are categorized as operating grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities (Continued)

The Commission's total cost to fund all governmental activities was \$7,197,012 for the year ended December 31, 2014 and \$7,560,513 for the year ended December 31, 2013. All of these costs were for repairs and maintenance on the road system in Gogebic County and administrative expenses. Costs for road construction and reconstruction are capitalized and reported as infrastructure additions in the statement of net position. This amount fluctuates from year to year based on project funding levels and the scope of work performed on various projects.

Fund Financial Statements

As stated earlier, the governmental fund financial statements report the Commission's finances on the modified accrual basis of accounting. The Commission reports a fund equity of \$3,061,506 and \$2,956,950 at December 31, 2014 and 2013, respectively. There was an increase of \$104,916 during the year ended December 31, 2014. Total expenditures reported were \$7,345,260 and \$5,003,800 for the years ended December 31, 2014 and 2013, respectively. Salaries and wages paid to employees totaled \$1,626,628 or 22% of total expenditures and related fringes were \$1,313,566 or 17% of the total for year ended December 31, 2014. This is compared to amounts of \$1,405,435 or 28% and \$1,012,993 or 20% for the year ended December 31, 2013. Capital outlay purchases totaled \$293,831 for the year ended December 31, 2014.

Budgetary Comparison Schedules - Variance Analysis

The significant budget changes of the Commission for year ended December 31, 2014, included the following:

<u>Original Budget to Final Budget</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Change</u>
REVENUES			
State funds	\$ 3,448,866	\$ 4,057,553	\$ 608,687
Charges for services	<u>1,110,000</u>	<u>1,493,012</u>	<u>383,012</u>
	<u>\$ 4,558,866</u>	<u>\$ 5,550,565</u>	<u>\$ 991,699</u>
EXPENDITURES			
Primary roads	\$ 3,270,584	\$ 3,797,212	\$ 526,628
Local roads	1,179,450	1,422,545	243,095
Services provided - state trunkline	1,110,000	1,493,000	383,000
Distributive expenses	<u>1,270,000</u>	<u>1,060,000</u>	<u>(210,000)</u>
	<u>\$ 6,830,034</u>	<u>\$ 7,772,757</u>	<u>\$ 942,723</u>

The State aid revenues increased as the State of Michigan appropriated several grants to the Road Commission due to harsh winter weather and road construction. Charges for services increased due to the amount of snowfall and winter maintenance during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Budgetary Comparison Schedules - Variance Analysis (Continued)

The primary roads expenditures increased due to receiving additional funding to expand construction projects such as Chaney Lake Road. Local roads expenditure budget increased due to expanded work plans on roads. When the original budget was adopted for the year ended December 31, 2014, the Commission had a tentative plan of which projects would be completed in 2014 and the amount of maintenance spending on local roads. This is done five to six months prior to the construction season. As the year progresses, changes are made to the projects and maintenance schedules based on priority, safety issues and available funding. As the location and scope of work changes, so do the expenditure categories.

The services provided for state trunkline increased due to additional plowing and maintenance on the state trunklines. Revenue increased accordingly and the budget was amended.

The distributive expense line item is difficult to budget as it changes during the year based on projects the Road Commission performs. These expenditures are distributed to all activities prior to year end.

The initial budget for the year ended December 31, 2014 was adopted by the Commission on December 23, 2013. Various amendments were made throughout the year with the final amendments made on December 8, 2014.

Final Budget to Actual

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES			
Primary roads	\$ 3,797,212	\$ 3,966,507	\$ (169,295)
Local roads	1,422,545	1,612,504	(189,959)
Equipment expense - net	(416,919)	153,866	(570,785)
Administrative expense - net	101,100	275,033	(173,933)

The Commission overspent in various expenditure categories during the year and these items are reported as budget violations in the supplemental report. The major reason is that the Commission budgets a line item for "distributive expenses" each year but for the financial statements, these expenses are allocated to each of the expenditure categories above. This amount was \$1,015,420 for the year ended December 31, 2014.

Capital Assets

At December 31, 2014 the Commission had \$19,652,698 invested in capital assets. This amount increased during the past fiscal year by \$2,544,021 consisting of additions totaling \$3,906,087 and depreciation charges of \$1,362,066. The additions included various equipment and building additions of \$409,253 and infrastructure additions of \$3,496,834. Assets disposed of during the year had a historical cost of \$477,912 and accumulated depreciation of \$477,912. The infrastructure capitalized includes various road construction and reconstruction completed in 2014 that meets the State of Michigan Department of Transportation guidelines for capitalization.

Debt

The Commission had \$723,199 of long-term liabilities at December 31, 2014. The December 31, 2014 balance includes an amount of \$496,572 to record the estimate of other post-employment health care benefits payable. The amount of the health care benefits payable was determined by an actuarial study. The amount increased by \$120,030 during 2014. The remainder of the balance is for accrued vacation and sick benefits payable to employees.

Future Considerations

The collective bargaining agreement with the union includes an article indicating that no new employees hired after January 1, 2010 will receive retiree health care benefits. Additionally, as of January 1, 2013, the Gogebic County Road Commission is required to comply with PA 152 in which all employees will be required to either pay 20 percent of their health insurance premium or a reduced premium cap as part of the Publicly Funded Health Insurance Contribution Act of 2011. Currently, the Road Commission Board has opted to comply by approving the reduced premium cap amount.

Construction projects have been funded for the 2015 construction season. Major projects include culvert replacements on Chaney Lake Road and Thousand Island Lake Road. The cost for culverts is budgeted for \$175,000 total for both roads which is 100% local contribution. Chaney Lake Road is also scheduled for reconstruction at an estimate of \$550,000 utilizing federal funds. This project requires a 20% local match which equates to \$110,000 from the Road Commission general revenue fund. Four bridges were scheduled for preventative maintenance totaling \$880,000. Unfortunately, there were no bidders so this work will be postponed until 2016. In addition, there is FEMA, ER and ERFO work that was extended into the 2015 season. The amount equates to \$242,779 of which our local match portion is \$25,555. With the additional construction work scheduled for 2015, the Road Commission will be in a budget deficit; however fund balance reserves are in an acceptable range.

The Road Commission received a MDOT Category A Grant totaling \$2,311,380 for County Road 519 North and a Rehabilitation Grant for the County Road 519 over the Jackson Creek Bridge totaling \$239,000. Both grants require 20% and 5% local matching contributions which will be provided by a private source (Orvana Minerals). These projects are on hold until further activities with Orvana Minerals begin to develop.

Future Considerations (Continued)

The Road Commission received a Federal Land Access Program Grant (FLAP) totaling \$1,575,000 for the reconstruction of Thousand Island Lake Road. The total project cost is estimated at \$2,695,194 which will be scheduled for work over the next three years. The difference from total cost to the FLAP grant is \$1,120,194 which will be paid for by federal STP funds (\$581,155) and local contributions (\$539,039). Work will commence in 2016 and shall be completed by 2018.

The Road Commission has purchased vacant land for a new Road Commission complex near Bessemer. The Road Commission offset the purchase price and site improvements by harvesting trees from three gravel pits owned by the Road Commission. Funding for the new truck garage complex has not been secured, but will entail bonding and other sorts of financing over an extended time period. Anticipation would be for the complex to be constructed within the next 3-5 years.

Legislation has been introduced to restructure transportation funding for MDOT and the road commissions. If the bills are successful, additional revenue will be available to Gogebic County Road Commission for needed maintenance work. Until then, the Road Commission continues to operate within budgetary restraints.

Contacting the Commission

If you have any questions about this report or need additional information, contact the Manager at the Gogebic County Road Commission, Courthouse Annex, Bessemer, MI 49911.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF NET POSITION
GOGEBIC COUNTY ROAD COMMISSION

December 31, 2014

ASSETS	
CURRENT ASSETS	
Cash	\$ 2,537,976
Investments	205,096
Accounts receivable:	
State of Michigan	575,102
Due from others	1,334
Inventories:	
Equipment parts and materials	306,816
Road materials	196,141
Prepaid insurance	<u>36,588</u>
TOTAL CURRENT ASSETS	\$ 3,859,053
NON CURRENT ASSETS	
Capital assets	\$ 29,695,972
Less allowances for depreciation	<u>(10,043,274)</u>
TOTAL NON CURRENT ASSETS	\$ 19,652,698
TOTAL ASSETS	<u>\$ 23,511,751</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 71,074
Salaries, wages and related benefits	<u>61,013</u>
TOTAL CURRENT LIABILITIES	\$ 132,087
LONG-TERM LIABILITIES	
Vacation and sick benefits payable	\$ 226,627
Other post-employment benefits payable	<u>496,572</u>
TOTAL LONG-TERM LIABILITIES	\$ 723,199
TOTAL LIABILITIES	<u>\$ 855,286</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue:	
Equipment and maintenance advances	\$ 409,344
Commercial Forest funds	<u>154,999</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 564,343</u>
NET POSITION	
Investment in capital assets, net of related debt	\$ 19,652,698
Unrestricted	<u>2,439,424</u>
TOTAL NET POSITION	<u>\$ 22,092,122</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

GOVERNMENTAL FUNCTIONS

Program expenses:	
Public works:	
Primary road maintenance	\$ 985,286
Local road maintenance	1,096,891
Services provided	1,433,801
Equipment expense	1,908,687
Net administrative expense	275,033
Net compensated absences	15,218
Other post-employment benefits expense	120,030
Depreciation expense	<u>1,362,066</u>
TOTAL PROGRAM EXPENSES	\$ 7,197,012
Program revenues:	
Charges for services	\$ 1,475,895
Operating grants and contributions:	
State Aid	2,849,310
Rents	1,870,243
Other	390,282
Capital grants and contributions:	
Federal Aid	1,671,430
State Aid	1,338,687
Contributions from other governmental units	<u>179,276</u>
TOTAL PROGRAM REVENUES	\$ 9,775,123
NET PROGRAM REVENUES	\$ 2,578,111
General Revenues:	
Interest, dividends and rent	\$ 8,675
Gain on asset disposals	<u>28,020</u>
TOTAL GENERAL REVENUES	\$ 36,695
CHANGE IN NET POSITION FOR THE YEAR	\$ 2,614,806
NET POSITION AT JANUARY 1, 2014	<u>19,477,316</u>
NET POSITION AT DECEMBER 31, 2014	<u>\$ 22,092,122</u>

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET - GOVERNMENTAL FUND

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2014

ASSETS

Cash	\$ 2,537,976
Investments	205,096
Accounts receivable:	
State of Michigan	575,102
Due from others	1,334
Inventories:	
Equipment parts and materials	306,816
Road materials	196,141
Prepaid insurance	<u>36,588</u>
	<u>\$ 3,859,053</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY

Liabilities:		
Accounts payable	\$ 71,074	
Salaries, wages and related benefits	<u>61,013</u>	
		TOTAL LIABILITIES \$ 132,087

Deferred inflows of resources:		
Unavailable revenue:		
Equipment and maintenance advances	\$ 409,344	
State of Michigan Public Act 252	101,117	
Commercial Forest funds	<u>154,999</u>	

TOTAL DEFERRED INFLOWS OF RESOURCES \$ 665,460

Fund equity:		
Non-spendable for inventories and prepaid expenses	\$ 539,545	
Assigned:		
For future budgeting purposes	188,953	
For post-employment benefits and emergencies	205,096	
For future capital improvements	750,000	
Unassigned	<u>1,377,912</u>	
		<u>\$ 3,061,506</u>
		<u>\$ 3,859,053</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET POSITION

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2014

Total fund equity of the governmental fund \$ 3,061,506

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

Additions:

Voluntary nonexchange transactions not specifying a time requirement
are recognized at the full accrual level as a revenue and not
as a deferred inflow - State of Michigan Public Act 252 grant funds \$ 101,117

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds.

The cost of the capital assets is \$ 29,695,972
Allowance for depreciation is (10,043,274) 19,652,698

Reductions:

Long-term liabilities are not due and payable in the current period and
therefore are not reported as liabilities in governmental funds. (723,199)

Total net position of governmental activities \$ 22,092,122

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

Total revenues	\$ 7,450,176
Total expenditures	<u>7,345,260</u>
Excess of revenues over expenditures	\$ 104,916
Fund balance at January 1, 2014	<u>2,956,590</u>
FUND BALANCE AT DECEMBER 31, 2014	<u><u>\$ 3,061,506</u></u>

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF REVENUES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Federal Aid:			
Surface Transportation funds		\$ 285,467	
Transportation Economic Development funds		35,922	
Emergency Relief funds		745,025	
Bureau of Indian Affairs Emergency Relief funds		562,051	
U. S. Forest Service		25,525	
Federal Emergency Management Association		<u>17,440</u>	
	\$ 1,787,182	\$ 1,671,430	\$ (115,752)
State Aid:			
Michigan Transportation Fund:			
Engineering		\$ 10,000	
Primary road		1,507,159	
Local road		657,311	
Primary urban road		33,853	
Local urban road		7,855	
Snow removal		274,635	
Priority Roads Investment Program funds		850,000	
General Fund - P.A. 252 of 2014 funds		101,154	
Transportation Economic Development funds		197,571	
Economic Development Fund - Forest Road funds		186,116	
Special winter maintenance allocation		156,226	
Chemical containment system grant		<u>105,000</u>	
	4,057,553	\$ 4,086,880	29,327
County raised and other revenues:			
Contributions from other governmental units	209,276	179,276	(30,000)
Charges for services:			
State trunkline maintenance		\$ 1,284,054	
State trunkline nonmaintenance		186,942	
Other		<u>4,899</u>	
	1,493,012	\$ 1,475,895	(17,117)
Interest, dividends and rent	6,801	8,675	1,874
Gain on asset disposals	28,470	28,020	(450)
Refunds and other	<u>4,080</u>		<u>(4,080)</u>
TOTAL REVENUES	\$ <u>7,586,374</u>	\$ <u>7,450,176</u>	\$ <u>(136,198)</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

	Budget	Actual	Variance Favorable (Unfavorable)
Primary road:			
Preservation - structural improvements		\$ 2,972,746	
Maintenance		950,134	
Primary road structures:			
Preservation - structural improvements		8,475	
Maintenance		<u>35,152</u>	
	\$ 3,797,212	\$ 3,966,507	\$ (169,295)
Local road:			
Preservation - structural improvements		\$ 516,271	
Maintenance		1,089,124	
Local road structures - maintenance		<u>7,109</u>	
	1,422,545	\$ 1,612,504	(189,959)
Services provided:			
State trunkline maintenance		\$ 1,247,024	
State trunkline nonmaintenance		<u>186,777</u>	
	1,493,000	\$ 1,433,801	59,199
Equipment expense - net:			
Direct		\$ 1,014,604	
Indirect		578,207	
Operating		431,298	
Less equipment rental		<u>(1,870,243)</u>	
	(416,919)	\$ 153,866	(570,785)
Administrative expenses - net:			
Administrative expense		\$ 422,785	
Less:			
Handling charges		(356)	
Overhead - state trunkline maintenance		(146,852)	
Purchase discounts		(392)	
Other		<u>(152)</u>	
	101,100	\$ 275,033	(173,933)

STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND -
BUDGET AND ACTUAL (CONTINUED)

	Budget	Actual	Variance Favorable (Unfavorable)
Distributive expenses	1,060,000		1,060,000
Capital outlay - net:			
Capital outlay		\$ 293,831	
Less depreciation		<u>(390,282)</u>	
	<u>(4,300)</u>	<u>\$ (96,451)</u>	<u>92,151</u>
TOTAL EXPENDITURES	<u>\$7,452,638</u>	<u>\$7,345,260</u>	<u>\$ 107,378</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2014

Total net change in fund balance - governmental fund \$ 104,916

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

Voluntary nonexchange transactions not specifying a time requirement
are recognized at the full accrual level as a revenue and not
as a deferred inflow - State of Michigan Public Act 252 grant funds 101,117

Capital outlays to purchase or construct capital assets are reported as expenditures in
governmental funds. For governmental activities, those costs are shown in the statement
of net assets and allocated over their estimated useful lives as annual depreciation expenses
in the statement of activities. This is the amount by which capital outlay exceeds
depreciation expense in the period.

Depreciation expense	\$ (1,362,066)	
Capital outlays	<u>3,906,087</u>	2,544,021

In the statement of activities, operating expenses for compensated absences
are measured by amounts earned during the year while the governmental funds
report expenditures as amounts are paid. This year the amount paid for
compensated absences was more than the amount earned. (15,218)

In the statement of activities, an expense is recorded for other post-employment
benefits (OPEB) to adjust the net OPEB obligation to the actuarial determined
amount less any contributions to fund the obligation. This is the difference
between the prior year and the current year net OPEB obligation. (120,030)

Change in net position of governmental activities \$ 2,614,806

The accompanying notes are an integral part of the
financial statements.

NOTES TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS
GOGEBIC COUNTY ROAD COMMISSION

December 31, 2014

NOTE A - REPORTING ENTITY

Gogebic County Road Commission (the Commission) was established pursuant to the County Road Law (MCL 224.1) and is governed by a five member Board of County Road Commissioners appointed by the County Board of Commissioners. The Commission may not issue debt without the County's approval, and property tax levies, if any, are subject to County Board of Commissioners' approval.

The criteria established by professional accounting standards for determining the reporting entity includes oversight responsibility, fiscal dependency, whether a financial benefit or burden relationship is present and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present only Gogebic County Road Commission, a discretely presented component unit of Gogebic County, Michigan.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund 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 General Operating Fund.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Gogebic County Road Commission conform to accounting principles generally accepted in the United States as applicable to governmental units. The following is a summary of the significant policies:

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information on all of the activities of the Commission. The activities of the Commission are considered to be governmental activities.

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resource measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Commission's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. The Commission has one function, public works, and its program revenues are generated from charges for services, operating grants and contributions and capital grants.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, which are considered separate fiscal and accounting entities. The Commission has only one fund. That fund is a special revenue fund which is the major governmental fund.

Governmental funds are accounted for using the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current fund liabilities. The Commission considers revenues to be available if collected within 60 days of the end of the period. Expenditure-based grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources.

Investments

Investments are stated for financial statement purposes at their fair market value and include certificates of deposit in commercial banks.

Accounts Receivable

The Commission grants credit to customers for various types of services performed. Included among its customers are federal, state and local units of government. The direct charge-off method is used for recognizing uncollectible accounts. All accounts deemed to be uncollectible as of the end of the year are charged off as an expenditure. The effects of using this method approximate those of the allowance method.

Inventories

Inventories are priced at cost as determined by the moving average method, except for stockpiled road materials, which are priced at the 2014 average unit production cost. Inventory items are charged to road construction, equipment maintenance, repairs and operations as they are used.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets include land, buildings, equipment and infrastructure and are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an acquisition cost of more than \$1,000 with an estimated useful life of at least four years. Assets costing less than \$1,000 are capitalized if they have an equipment rental rate as determined by the State of Michigan. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation.

Professional accounting standards requires major networks of infrastructure assets acquired, constructed or substantially rehabilitated to be capitalized and depreciated. The Commission has capitalized the current year infrastructure as required by professional accounting standards and has reported the infrastructure in the Statement of Net Position. The Commission had the option to report infrastructure prospectively and chose to do so beginning with projects completed in 2003.

The costs of capital assets are charged to expense using an annual allocation of depreciation expense. The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function.

The capital assets are depreciated using the sum-of-the-years-digits method for road equipment and straight-line method for all other fixed assets over the useful lives as established by the Uniform Accounting Procedures Manual for Michigan County Road Commissions. It is the Commission's policy to take no depreciation in the year of completion for infrastructure assets. The lives are summarized as follows:

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

Impairment of Long-lived Assets

Management reviews long-lived assets held and used by the Commission for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has two types of items that qualify for reporting in this category. The Commission reports unavailable revenue from equipment and maintenance advances, Public Act 252 grant funds and commercial forest revenues from the State of Michigan to be spent in future years. These amounts are unavailable and recognized as an inflow of resources in the period that the amounts become available.

Investment in Capital Assets, Net of Related Debt

The portion of net position of the Commission that consists of capital assets, net of allowances for depreciation and reduced by any long-term liabilities attributable to the acquisition of those assets is reported as investment in capital assets, net of related debt.

Unrestricted Net Position

The portion of net position not meeting the criteria above is considered unrestricted.

Fund Balance Policies

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount. The Commission's fund balances will be maintained to provide adequate fund balances and reserves in order to provide sufficient cash flow for daily financial needs, secure and maintain investment grade bond ratings, offset significant economic downturns or revenue shortfalls and provide funds for unforeseen expenditures related to emergencies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Policies (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, it shall be the policy of the Commission to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Commission that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Nonspendable Fund Balances include amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained in-tact. Nonspendable amounts will be determined before all other classifications and consist of the following items as applicable in any given fiscal year:

- Any long-term outstanding balances due from others;
- Balance of inventories and prepaid expenses;
- The corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact;
- Balance of any land or other nonfinancial asset held for sale

Restricted fund balances are those amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers or through enabling legislation.

Committed fund balances include amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Fund Balance commitments will only be used for specific purposes pursuant to a formal action of the Commission. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment. Committed Fund Balance does not lapse at year end.

Assigned fund balances include amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. The Commission delegates the Engineer/Manager or his designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available fund balance in any particular fund. Assigned Fund Balance does not lapse at year end.

Unassigned fund balance includes the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used to report a deficit balance from overspending for specific purposes for which an amount has been restricted, committed or assigned.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Policies (Continued)

Upon adoption of this policy, the Commission authorized the Engineer/Manager to establish any standards and procedures which may be necessary for its implementation. The Engineer/Manager shall review this policy at least annually and make any recommendations for changes to the Commission. An annual reporting of fund balances as classified in accordance with professional accounting standards shall be reported in the annual audited financial statements of the Commission.

Use of Estimates

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

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Prior to January 1, the Commission's chief administrative officer prepares and submits a proposed operating budget to the Board of County Road Commissioners for their review and consideration. The Board of County Road Commissioners conducts a public budget hearing and subsequently adopts the operating budget. The budget is adopted on a functional level. The Board of County Road Commissioners has authorized the chief administrative officer to amend the operating budget, when necessary, by transferring up to 20% from one line item to another. The operating budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended, by the Board of County Road Commissioners. The budget lapses on December 31.

Subsequent events

Subsequent events have been evaluated through the date of the audit report, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND INVESTMENTS

Cash is deposited with the Gogebic County Treasurer, the depository agent for cash balances of the various funds of Gogebic County. The County Treasurer combines cash balances for investment purposes. A detailed accounting of cash balances allocable to the various funds is maintained.

Deposits and investments were made in accordance with State of Michigan statutes and under authorization of the County Board of Commissioners. State of Michigan statutes authorize investments in direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks.

The Commission uses an imprest system with zero balances for its accounts payable and payroll checking accounts. The portion of these two accounts covered by FDIC insurance cannot be determined because the accounts are among several Gogebic County accounts in the same local banks. The investment balance reflected on the balance sheet of the General Operating Fund is represented by deposits included in Gogebic County's common municipal investment mutual fund accounts with all transfers to the accounts payable and payroll accounts approved by the Gogebic County's Board of Commissioners. Required information related to the investments may be found in Gogebic County's separately issued Audited Financial Statements.

NOTE D – LONG-TERM LIABILITIES

Long-term liability balances and activity for the year ended December 31, 2014, were as follows:

	Balance at January 1, <u>2014</u>	<u>Additions</u>	Balance at December 31, <u>2014</u>
Compensated absences:			
Vacation benefits	\$ 88,353	\$ 4,850	\$ 93,203
Sick leave benefits	<u>123,056</u>	<u>10,368</u>	<u>133,424</u>
Other post-employment benefits	\$ 211,409	\$ 15,218	\$ 226,627
	<u>376,542</u>	<u>120,030</u>	<u>496,572</u>
TOTALS	<u>\$ 587,951</u>	<u>\$ 135,248</u>	<u>\$ 723,199</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LONG-TERM LIABILITIES (CONTINUED)

Vacation Benefits

The Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service and pay rates of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in subsequent calendar years.

Sick Leave Benefits

The Commission employment policies provide that each full-time employee shall earn one day of sick leave credit for each month of service. Sick leave credits may be accumulated to a maximum of 120 days. After December 31, 2012, sick leave credits may be accumulated to a maximum of 120 days with a maximum of 60 days accumulated for benefits paid on separation of employment.

Payment of 50% of accumulated benefits will be made if a union employee dies while in service with the Commission or is permanently laid off; and payment of 25% will be made to a union employee who voluntarily separates from employment with the Commission. No payment will be made if a union employee is discharged from service for just cause. A union employee retiring from the Commission at normal retirement age will receive payment of 60% of accumulated benefits at normal retirement age; 75% of benefits with 20-25 years of service; and 100% of benefits with 25 or more years of service.

Employees not covered by the union collective bargaining agreement receive payment of 60% of accumulated benefits at normal retirement age; 75% of benefits with 20-25 years of service; and 100% of benefits with 25 or more years of service. Payment of 25% of benefits will be made upon voluntary separation and no benefits are paid if the employee is discharged.

Other Post-employment Benefits Payable

See Note K - Other post-employment benefits for detail related to this liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – CAPITAL ASSETS

Following is a summary of the changes in the capital assets and allowances for depreciation for the year ended December 31, 2014:

	Balance at January 1, <u>2014</u>	<u>Additions</u>	<u>Deductions</u>	Balance at December 31, <u>2014</u>
Land, buildings, equipment and infrastructure:				
Land and improvements	\$ 1,617	\$ 6,262		\$ 7,879
Buildings	804,017			804,017
Road equipment	4,300,552	273,311	\$ 209,182	4,364,681
Shop equipment	117,892	3,354	82,876	38,370
Yard and storage equipment	240,477	123,071	185,854	177,694
Office equipment	62,210	3,255		65,465
Depletable assets	68,757			68,757
Infrastructure	<u>20,672,275</u>	<u>3,496,834</u>	<u> </u>	<u>24,169,109</u>
TOTAL LAND, BUILDINGS EQUIPMENT AND INFRASTRUCTURE	\$ 26,267,797	\$ 3,906,087	\$ 477,912	\$ 29,695,972
Allowances for depreciation:				
Buildings	\$ 580,603	\$ 21,032		\$ 601,635
Road equipment	3,242,474	360,118	\$ 209,182	3,393,410
Shop equipment	115,062	797	82,876	32,983
Yard and storage equipment	192,292	6,479	185,854	12,917
Office equipment	54,565	5,415		59,980
Infrastructure	<u>4,974,124</u>	<u>968,225</u>	<u> </u>	<u>5,942,349</u>
TOTAL ALLOWANCES FOR DEPRECIATION	\$ 9,159,120	\$ 1,362,066	\$ 477,912	\$ 10,043,274
NET CARRYING AMOUNT	<u>\$ 17,108,677</u>	<u>\$ 2,544,021</u>	<u>\$ 0</u>	<u>\$ 19,652,698</u>

Depreciation expense is charged to expense categories based on the usage of equipment for each of the categories. The Commission also records depreciation expense and a corresponding revenue of equal amount to facilitate in charging allocable amounts of depreciation to the proper categories.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F – RETIREMENT SYSTEM

The Commission participates in the Gogebic County Employee Retirement System, a multi-employer defined benefit pension plan administered by Gogebic County. The plan covers substantially all of its employees and its assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan. Required schedules of funding progress and actuarial valuation information may be found in Gogebic County's separately issued Audited Financial Statements.

All full-time employees are eligible to participate in the System. Employees who retire at or after age 55 with 30 years of credited service, or age 60 with 8 years of credited service, are entitled to an annual retirement benefit, payable monthly for life, equal to total service years times 2.0% of final average compensation, except for one employee whose monthly benefit uses a 2.25% negotiated rate. Final average compensation is the employee's highest five consecutive years out of the last ten, except for employees with over 30 years of service whose final average compensation is the employee's highest three consecutive years out of the last five.

Benefits fully vest on reaching 8 years of service. The System also provides death and disability benefits. Benefits are established by State statute. Members not fully vested are required to contribute 3% of the first \$4,200 of annual compensation plus 5% of compensation in excess of \$4,200. The Commission makes all required payments for fully vested members. Members who were not fully vested contributed \$16,272 to the System during 2014. The Commission's contributions to the System for the years ended December 31, 2012, 2013 and 2014, were \$299,041, \$279,005 and \$347,757, respectively, in accordance with the contribution requirements determined by actuarial valuations of the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission manages its risk by being a member of the Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a public entity risk pool providing general liability, auto, property and crime insurance coverage to its participating members and the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Commission is sharing risks with other members of the pools and pays an annual premium to each pool for the following coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General liability	\$10,500,000	\$1,000
Physical damage:		
Building Ordinance Coverage	1,000,000	500
Property in Transit	50,000	500
At Unnamed Locations	10,000	500
Crime	25,000	1,000
Workers' compensation	Statutory limits	0
Employment Practices and Public Officials Errors and Omissions	10,000,000	0

The pools provide this coverage to members by internally assuming risks and reinsuring risks through commercial companies. The MCRCSIP has reinsurance up to \$10,500,000 for each member per occurrence and the CRASIF has reinsurance up to \$10,000,000 and each has the authority to make additional assessments to the members.

The Commission's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The Commission does not know the incurred but not reported claims, but estimates that the potential unpaid and unreported claims do not exceed the amount of assets in either risk pool available to pay claims.

The Commission carries commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – DEFERRED COMPENSATION PLAN

Road Commission employees are eligible to participate in a deferred compensation plan in addition to the normal retirement plan discussed in Note F above. The Plan was created in accordance with Internal Revenue Code Section 457. The Plan is available to substantially all full-time employees and permits employees to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) to be held in a trust for the exclusive benefit of Plan participants and their beneficiaries.

Investments are managed by the Plan's trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

It has been determined that the Commission does not have any fiduciary responsibility regarding this Plan and, accordingly, has not reflected any of its assets or activities in its financial statements.

NOTE I – MICHIGAN PUBLIC ACT 621 OF 1978 DISCLOSURE

Michigan Public Act 621 of 1978 (MCL 141.421), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2014, the Commission incurred expenditures in certain of its budgetary activities in excess of the amounts appropriated.

NOTE J – SINGLE AUDIT ACT

The Commission has expended over \$500,000 of federal financial assistance during the year ended December 31, 2014, and is included in Gogebic County, Michigan's county-wide single audit conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. As such, the required reporting is included in Gogebic County's separately issued Audited Financial Statements.

NOTE K – OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note F, the Commission provides post-employment healthcare insurance benefits in accordance with the following provisions in accordance with Article 52 of the of the collective bargaining unit (administrative employees of the Commission have historically followed the provisions set forth in the union agreement).

Two employees that retired under the old retirement plan receive health insurance benefits as part of the County Retirement System. The Commission pays the premiums on a monthly basis and the County Retirement System reimburses the Commission for the cost of the premiums.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Retirees have the option to decline the post-employment health benefit and receive payment-in-lieu of the health benefit.

The Commission pays health insurance benefits of retirees receiving a retiree benefit allowance from the County Retirement System under a single-employer plan. Retirees are eligible for the benefit if they are age 55 with 30 years of service or age 60 with 8 years of service. Surviving spouses of employees are eligible for the health care benefit until the spouse becomes Medicare eligible under the following circumstances; Duty death – spouse entitled to deferred coverage at age 55 if employee accrued 8 years of service; Non-duty death – spouse entitled to deferred coverage at age 55 if employee eligible for normal retirement; Duty disability – employee with 8 years of service shall immediately receive two-person health coverage fully paid by the System until the employee is eligible for Medicare or Medicaid; until the retiree is eligible for Medicare benefits. At December 31, 2014, the Commission has 9 employees who are receiving this benefit. Effective for new hires after January 1, 2010, no retiree health insurance coverage will be provided to these employees.

The payments are recorded as current expenditures when paid on a “pay-as-you-go” basis. The Commission has no obligation to make contributions in advance of when the premiums are due. In accordance with professional accounting standards, the Commission is required to record in the financial statements the annual “Other Post-employment Benefit” (OPEB) cost.

Professional accounting standards also requires information related to the benefits. The Commission’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount determined by an actuarial study. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. In the year of implementation of professional accounting standards, the Net OPEB obligation is set at zero at the beginning of the year. The Commission’s computed ARC and funding status at December 31, 2012, 2013 and 2014 are as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

	For the year ended		
	December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB Cost:			
Annual required contribution (ARC)	\$ 269,779	\$ 270,090	\$ 220,346
Interest on prior year's net OPEB obligation	<u>12,500</u>	<u>9,000</u>	<u>7,300</u>
Annual OPEB Cost	\$ 282,279	\$ 279,090	\$ 227,646
Amounts contributed - payments of current premiums	<u>(162,249)</u>	<u>(186,417)</u>	<u>(163,038)</u>
Increase in Net OPEB obligation	\$ 120,030	\$ 92,673	\$ 64,608
Net OPEB obligation beginning of year	<u>376,542</u>	<u>283,869</u>	<u>219,261</u>
Net OPEB obligation at end of year	<u>\$ 496,572</u>	<u>\$ 376,542</u>	<u>\$ 283,869</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the years ended December 31, 2012, 2013 and 2014 is as follows:

	For the year ended		
	December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB costs	\$ 282,279	\$ 279,090	\$ 227,646
Percentage contributed	57.48%	66.79%	71.62%
Net OPEB obligation	\$ 496,572	\$ 376,542	\$ 283,869

The current funding progress of the plan as of December 31, 2011, the date of the most recent actuarial valuation, is as follows:

	<u>December 31, 2011</u>
Actuarial valuation of assets	\$ 0
Actuarial accrued liability (AAL)	\$ 2,167,622
Unfunded AAL (UAAL)	\$ 2,167,622
Funded ratio	0%

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation, the individual entry-age actuarial cost method was used. The actuarial assumptions included a 7.5% investment rate of return (net of expenses), consisting of a real rate of return of 3.0% a year plus a long-term rate of wage growth of 4.5% a year. The assumptions included expected annual increases in salaries for individual members between 4.5% - 9.5%. The assumptions also included expected increases in healthcare costs between 4.5% - 9.0%. The UAAL is being amortized by a level percent of payroll contributions over a 30-year period beginning on the valuation date.

NOTE L – OPERATING LEASES

On April 9, 2012, the Commission approved the leasing of three motor graders. The lease is for sixty months with annual rental payments of \$68,878 due June 20 beginning in 2012. On March 25, 2013, the Commission approved leasing of three 4WD wheel loaders. The lease is for sixty months with annual rental payments of \$15,000 and \$24,203 due June 23 beginning in 2013. Future minimum rental payments related to the lease is as follows:

<u>Year ending December 31,</u>	<u>Total</u>
2015	\$ 108,081
2016	108,081
2017	<u>39,203</u>
	<u>\$ 255,365</u>

The lease includes a guaranteed buy-back of the three motor graders for \$487,326 and \$862,201 for the three wheel loaders by the leasing company at the end of the lease term if the Commission exercises the buy-back agreement.

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON SCHEDULE

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2014

	Original Budget	Final Budget	Actual
REVENUES			
Federal aid	\$ 1,615,939	\$ 1,787,182	\$ 1,671,430
State funds	3,448,866	4,057,553	4,086,880
Contributions - other governmental units	128,000	209,276	179,276
Charges for services	1,110,000	1,493,012	1,475,895
Interest, dividends and rent	3,001	6,801	8,675
Other	5,500	4,080	
Gain on asset disposals		<u>28,470</u>	<u>28,020</u>
TOTAL REVENUES	\$ 6,311,306	\$ 7,586,374	\$ 7,450,176
EXPENDITURES			
Primary roads	\$ 3,270,584	\$ 3,797,212	\$ 3,966,507
Local roads	1,179,450	1,422,545	1,612,504
Services provided - state trunkline	1,110,000	1,493,000	1,433,801
Equipment expense - net	(361,919)	(416,919)	153,866
Administrative expense - net	135,500	101,100	275,033
Distributive expenses	1,270,000	1,060,000	
Capital outlay - net	<u>(125,000)</u>	<u>(4,300)</u>	<u>(96,451)</u>
TOTAL EXPENDITURES	\$ 6,478,615	\$ 7,452,638	\$ 7,345,260
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (167,309)	\$ 133,736	\$ 104,916
Fund balance at January 1, 2014	<u>2,956,590</u>	<u>2,956,590</u>	<u>2,956,590</u>
FUND BALANCE AT DECEMBER 31, 2014	<u>\$ 2,789,281</u>	<u>\$ 3,090,326</u>	<u>\$ 3,061,506</u>

The accompanying notes are an integral part of the financial statements.

OTHER
FINANCIAL
INFORMATION

ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total revenues	\$ 4,674,100	\$ 1,158,486	\$ 1,617,590	\$ 7,450,176
Total expenditures	<u>4,091,158</u>	<u>1,626,840</u>	<u>1,627,262</u>	<u>7,345,260</u>
Excess (deficiency) of revenues over expenditures	\$ 582,942	\$ (468,354)	\$ (9,672)	\$ 104,916
Other financing sources (uses) Optional transfers	<u>(468,354)</u>	<u>468,354</u>		
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ 114,588		\$ (9,672)	\$ 104,916
Fund balance at January 1, 2014, as previously stated	\$ 1,575,209	\$ 405,289	\$ 976,092	\$ 2,956,590
Correction of optional transfer made at December 31, 2013	<u>(96,641)</u>	<u>96,641</u>		
Fund balance at January 1, 2014, as restated	<u>\$ 1,478,568</u>	<u>\$ 501,930</u>	<u>\$ 976,092</u>	<u>\$ 2,956,590</u>
FUND BALANCE AT DECEMBER 31, 2014	<u>\$ 1,593,156</u>	<u>\$ 501,930</u>	<u>\$ 966,420</u>	<u>\$ 3,061,506</u>

The accompanying notes are an integral part of the financial statements.

ANALYSIS OF REVENUES

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
REVENUES				
Federal Aid:				
Surface Transportation funds	\$ 285,467			\$ 285,467
Transportation Economic Development funds	35,922			35,922
Emergency Relief funds	745,025			745,025
Bureau of Indian Affairs Emergency Relief funds	562,051			562,051
U. S. Forest Service	25,525			25,525
Federal Emergency Management Association	<u>17,440</u>			<u>17,440</u>
	\$ 1,671,430			\$ 1,671,430
State Aid:				
Michigan Transportation Fund:				
Engineering	\$ 6,963	\$ 3,037		\$ 10,000
Allocation	1,507,159	657,311		2,164,470
Urban road	33,853	7,855		41,708
Snow removal	<u>109,854</u>	<u>164,781</u>		<u>274,635</u>
	\$ 1,657,829	\$ 832,984		\$ 2,490,813
Priority Roads Investment Program funds	850,000			850,000
General Fund - P.A. 252 of 2014 funds	101,154			101,154
Transportation Economic Development funds	197,571			197,571
Economic Development Fund - Forest Road funds	186,116			186,116
Special winter maintenance allocation		156,226		156,226
Chemical containment system grant	<u> </u>	<u> </u>	\$ 105,000	<u>105,000</u>
	\$ 2,992,670	\$ 989,210	\$ 105,000	\$ 4,086,880
County raised and other revenues:				
Contributions -				
Other governmental units	\$ 10,000	\$ 169,276		\$ 179,276
Charges for services:				
State trunkline maintenance			1,284,054	1,284,054
State trunkline nonmaintenance			186,942	186,942
Other			4,899	4,899
Interest, dividends and rent			8,675	8,675
Gain on asset disposals	<u> </u>	<u> </u>	<u>28,020</u>	<u>28,020</u>
	\$ 10,000	\$ 169,276	\$ 1,512,590	\$ 1,691,866
TOTAL REVENUES	<u>\$ 4,674,100</u>	<u>\$ 1,158,486</u>	<u>\$ 1,617,590</u>	<u>\$ 7,450,176</u>

The accompanying notes are an integral part of the financial statements.

ANALYSIS OF EXPENDITURES
GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2014

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary road:				
Preservation - structural improvements	\$ 2,972,746			\$ 2,972,746
Maintenance	950,134			950,134
Primary road structures:				
Preservation - structural improvements	8,475			8,475
Maintenance	<u>35,152</u>			<u>35,152</u>
	\$ 3,966,507			\$ 3,966,507
Local road:				
Preservation - structural improvements		\$ 516,271		\$ 516,271
Maintenance		1,089,124		1,089,124
Local road structures - maintenance		<u>7,109</u>		<u>7,109</u>
		\$ 1,612,504		\$ 1,612,504
Services provided:				
State trunkline maintenance			\$ 1,247,024	\$ 1,247,024
State trunkline nonmaintenance			<u>186,777</u>	<u>186,777</u>
			\$ 1,433,801	\$ 1,433,801
Equipment expense - net	42,292	48,025	63,549	153,866
Administrative expenses - net	195,540	79,493		275,033
Capital outlay - net	<u>(113,181)</u>	<u>(113,182)</u>	<u>129,912</u>	<u>(96,451)</u>
TOTAL EXPENDITURES	<u>\$ 4,091,158</u>	<u>\$ 1,626,840</u>	<u>\$ 1,627,262</u>	<u>\$ 7,345,260</u>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL
REPORT

MAKELA, POLLACK & AHONEN, P.L.L.C.
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Commissioners
Gogebic County Road Commission
Bessemer, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Gogebic County Road Commission's basic financial statements, and have issued our report thereon dated June 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gogebic 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gogebic County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Gogebic County Road Commission's internal control.

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below as item 2014-1, that we consider to be a significant deficiency.

2014-1 Michigan Public Act 621 of 1978

Criteria - Michigan Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated.

Condition - During the year ended December 31, 2014, the Gogebic County Road Commission incurred expenditures in certain of its budgetary activities in excess of amounts appropriated.

Cause – The final amendments did not include amendments for certain line items.

Effect – The effect of this is nominal as the Gogebic County Road Commission has fund balance available to fund expenditures.

Recommendation - We recommend that the Gogebic County Road Commission review the requirements of Michigan Public Act 621 of 1978, amend its budget in accordance therewith in the future and require conformity to the Act.

Management's Response - Gogebic County Road Commission management agrees and will take necessary steps to comply with the Act in the future.

This deficiency was reported in the prior year audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gogebic County Road Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Gogebic County Road Commission's Response to Findings

Gogebic County Road Commission's response to the finding identified in our audit is described above. Gogebic County Road Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Makela, Pollock & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
June 15, 2015

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June 15, 2015

Members of the Board of Commissioners
Gogebic County Road Commission
Bessemer, Michigan

We have audited the financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 26, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gogebic County Road Commission, are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Gogebic County Road Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Our audit report reported a significant deficiency referred to as item 2014-1 regarding budgeting.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were recording historical cost of fixed assets, including infrastructure and accumulated depreciation of fixed assets, estimating the liability for compensated absences and the liability for the annual required contribution for post-employment health benefits.

Management's estimate of the historical cost and related depreciation expense is based on historical cost and guidelines issued by the State of Michigan Department of Transportation. The liability for compensated absences is estimated by multiplying employee's current hourly rates by a percentage of accrued hours paid out according to current union and management agreements. The liability for the

MAKELA, POLLACK & AHONEN, P.L.L.C.

Gogebic County Road Commission

June 15, 2015

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annual required contribution for post-employment health benefits is based on an actuarial study done by a qualified actuary. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was Note K Other Post-employment Benefits. As described in Note K, the disclosure is based on information received from an actuarial study. The actuarial study is based on numerous assumptions that include predicting what may happen in the future with employees, market conditions and various other matters. The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 clearly 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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 15, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Gogebic 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.

MAKELA, POLLACK & AHONEN, P.L.L.C.

Gogebic County Road Commission

June 15, 2015

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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 Gogebic 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.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison information, which is required supplemental information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United State 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 to the financial statements themselves.

Restriction on Use

This information is intended solely for use of the Board and management of Gogebic County Road Commission, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Makela, Pollack & Ahonen, PLLC

Certified Public Accountants