



**ANDERSON, TACKMAN & COMPANY, PLC**

**Certified Public Accountants**

*"A Regional Firm With Offices In Michigan And Wisconsin"*

102 W. Washington St. Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

**PARTNERS**

John W. Blemberg, CPA  
Robert J. Downs, CPA, CVA  
Daniel E. Bianchi, CPA  
Michael A. Grentz, CPA  
William C. Sheltrow, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the  
County of Marquette, Michigan  
234 West Baraga Avenue  
Marquette, Michigan 49855

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Marquette, Michigan, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Marquette County Medical Care Facility, which represent 16 percent, 15 percent, and 66 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Marquette County Medical Care Facility, is based solely on the report of the other auditors. We did not audit the financial statements of Marquette County Road Commission, which represent 97 percent, 98 percent, and 100 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Marquette County Road Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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

The Board of Commissioners of the  
County of Marquette, Michigan

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 financial statement 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Marquette, Michigan, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 20 to the financial statements, in 2012, the County adopted the following new accounting guidance: GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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

The Board of Commissioners of the  
County of Marquette, Michigan

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Marquette's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements (which is included in a separate report). Such 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. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Anderson, Tackman & Company, PLLC*

Certified Public Accountants

June 24, 2013

## County of Marquette, Michigan

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the County of Marquette's financial performance provides an overview of the County's financial activities for the year ended December 31, 2012. Please read it in conjunction with the financial statements as listed in the Table of Contents.

#### FINANCIAL HIGHLIGHTS

The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$102,808,934 (net position). Of this amount, \$25,260,337 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

Net position for the County as a whole increased by \$905,154. Net position of our business-type activities increased by \$583,546, and net position of our governmental activities increased by \$321,608.

The County contribution for Other Post Employment Benefits (OPEB) is based on pay-as-you-go financing requirements. For the current year, contributions of \$1,946,718 did not equal the current year's annual required contribution (ARC). A liability of \$1,308,317 was recorded for the unfunded portion of the current year's ARC.

During the year, the County had expenses for governmental activities that were \$32,494,446, and expenses for business-type activities that were \$19,249,443.

The General Fund reported a net fund balance of \$5,701,876, an increase of \$771,230. At the end of the current fiscal year, unrestricted and unassigned fund balance for the General Fund was \$4,789,513, or 20.8% of total General Fund expenditures (including operating transfers).

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (as listed in the Table of Contents) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements are as listed in the Table of Contents. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside the government.

#### **Reporting the County as a Whole**

Our analysis of the County as a whole begins in the MD&A section entitled The County as a Whole. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the County's *net position* and changes in them. You can think of the County's net position - the difference between assets and liabilities - as one way to measure the County's financial health, or *financial position*. Over time,

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

*increases or decreases* in the County's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's patron base and the condition of the County's capital assets, to assess the *overall financial health* of the County.

In the Statement of Net Position and the Statement of Activities, we divide the County into three kinds of activities:

- Governmental activities – Most of the County's basic services are reported here, including the legislative, judicial, public safety, recreation and culture, and general services and administration. Property taxes, charges for services and state sources fund most of these activities.
  
- Business-type activities – The County charges a fee to customers to help it cover all or most of the cost of certain services it provides. The County's Medical Care Facility, Airport, K.I. Sawyer Water & Sewer, and Forest Recreation Funds are reported here.
  
- Component units – The County includes several legally separate entities in its report. These "component unit" include the Road Commission, EDC Fund, Brownfield Authority, Land Bank Authority, DPW Debt Fund and the Drain Maintenance. The County is financially accountable for these entities.

### Reporting the County's Most Significant Funds

Our analysis of the County's major funds begins in the MD&A section entitled The County's Funds. The fund financial statements as listed in the Table of Contents provide detailed information on the most significant funds – not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The County's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *Governmental Funds* – Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
  
- *Proprietary Funds* – When the County charges customers for the services it provides – whether to outside customers or to other units of the County – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the County's other programs and activities – such as the Delinquent Tax Revolving Fund.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

### The County as Trustee

The County is the trustee, or fiduciary, for assets that – because of a trust arrangement – can be used only for the trust

beneficiaries. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Position as listed in the Table of Contents. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### The County as a Whole

Table I provides a summary of the County's net position as of December 31, 2012.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Total Assets	\$34,016,876	\$31,361,590	\$93,211,968	\$92,467,831	\$127,228,844	\$123,829,421
Total Liabilities	10,185,010	8,753,831	1,882,596	1,722,005	12,067,606	10,475,836
Total Deferred Inflow of Resources	12,352,304	11,449,805	-	-	12,352,304	11,449,805
Net Position:						
Invested in capital assets, net of related debt	3,519,233	3,624,591	73,157,236	72,891,169	76,676,469	76,515,760
Restricted	251,189	418,414	620,939	990,496	872,128	1,408,910
Unrestricted	7,709,140	7,114,949	17,551,197	16,864,161	25,260,337	23,979,110
Total Net Position	<u>\$11,479,562</u>	<u>\$11,157,954</u>	<u>\$91,329,372</u>	<u>\$90,745,826</u>	<u>\$102,808,934</u>	<u>\$101,903,780</u>

Net position of the County's governmental activities stood at \$11,479,562. *Unrestricted* net position—the part of net position that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$7,709,140. The \$7,709,140 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. For 2012, unrestricted net position increased by \$594,491.

The net position of our business-type activities stood at \$91,329,372. The County can generally only use these net position to finance continuing operations of the business-type activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

The results of this year's operations for the County as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal year 2012.

**Table 2  
Change in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Charges for Services	\$4,942,977	\$4,479,177	\$17,053,425	\$17,026,229	\$21,996,402	\$21,505,406
Operating Grants and Contributions	6,574,534	6,864,858	157,454	586,985	6,731,988	7,451,843
Capital Grants and Contributions	-	-	2,293,059	9,302,110	2,293,059	9,302,110
General Revenues:						
Property taxes	18,316,102	16,827,928	-	-	18,316,102	16,827,928
State sources	882,139	1,537,364	-	-	882,139	1,537,364
Interest and Miscellaneous	2,415,302	2,847,741	14,051	20,533	2,429,353	2,868,274
<b>Total Revenues</b>	<b>33,131,054</b>	<b>32,557,068</b>	<b>19,517,989</b>	<b>26,935,857</b>	<b>52,649,043</b>	<b>59,492,925</b>
Program Expenses:						
Legislative	403,759	294,191	-	-	403,759	294,191
Judicial	6,803,315	6,846,916	-	-	6,803,315	6,846,916
Elections	77,004	17,042	-	-	77,004	17,042
Management	1,660,406	1,530,796	-	-	1,660,406	1,530,796
Public Records	1,692,948	1,662,561	-	-	1,692,948	1,662,561
Public Safety	8,291,969	8,736,025	-	-	8,291,969	8,736,025
Human Services	5,301,006	5,247,210	-	-	5,301,006	5,247,210
Resource Management	2,203,601	2,274,795	-	-	2,203,601	2,274,795
Other	6,060,438	6,009,536	-	-	6,060,438	6,009,536
Medical Care Facility	-	-	13,814,509	12,709,352	13,814,509	12,709,352
Airport	-	-	3,695,660	4,056,442	3,695,660	4,056,442
Forestry	-	-	227,251	206,397	227,251	206,397
Foreclosure	-	-	148,423	121,734	148,423	121,734
100% Tax Payment	-	-	4,204	4,024	4,204	4,024
Sewer	-	-	977,254	965,491	977,254	965,491
Water	-	-	382,142	367,570	382,142	367,570
<b>Total Expenses</b>	<b>32,494,446</b>	<b>32,619,072</b>	<b>19,249,443</b>	<b>18,431,010</b>	<b>51,743,889</b>	<b>51,050,082</b>
Excess (deficiency) before transfers	636,608	(62,004)	268,546	8,504,847	905,154	8,442,843
Transfers	(315,000)	(265,000)	315,000	265,000	-	-
Increase (decrease) in net position	321,608	(327,004)	583,546	8,769,847	905,154	8,442,843
Net Position, Beginning	11,157,954	11,484,958	90,745,826	81,975,979	101,903,780	93,460,937
<b>Net Position, Ending</b>	<b>\$11,479,562</b>	<b>\$11,157,954</b>	<b>\$91,329,372</b>	<b>\$90,745,826</b>	<b>\$102,808,934</b>	<b>\$101,903,780</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

The County's total revenues were \$52,649,043. The total cost of all programs and services was \$51,743,889, resulting in an increase in net position of \$905,154. Our analysis below separately considers the operations of governmental and business-type activities:

***Governmental Activities***

The net position of the County's governmental activities increased \$321,608 for the year ended December 31, 2012.

Expenses for the year ended December 31, 2012, decreased \$124,626 from the previous year.

Table 3 presents the cost of each of the five largest programs - Public Safety, Judicial, Human Services, Resource Management/Development, and Other - as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each program placed on the County's operation.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Public Safety	\$8,291,969	\$8,736,025	\$6,232,571	\$6,816,404
Judicial	6,803,315	6,846,916	2,888,384	2,929,183
Human Services	5,301,006	5,247,210	2,440,924	1,907,562
Resource Management/Development	2,203,601	2,274,795	1,524,278	1,695,245
Other	6,060,438	6,009,536	5,702,672	5,643,753

***Business-type Activities***

During the year ended December 31, 2012, the net position of the County's business-type activities increased by \$583,546.

Although the Medical Care Facility Fund reported an operating loss of \$777,131, non-operating revenues and intergovernmental transfers resulted in a decrease in net position of \$470,263.

The Airport Fund reported an operating income of \$363,109. This included recognition of \$2,349,407 in federally-funded airport improvement projects during the year. The Airport Fund recorded depreciation expenses of \$1,641,682.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The Sewer Fund reported an operating loss of \$167,248. This amount included depreciation expense of \$278,186.

The Water Fund reported an operating loss of \$10,605. This amount included depreciation expense of \$137,794.

The Forest Recreation Fund reported an operating income of \$84,747, non-operating revenues and intergovernmental transfers resulted in an increase in net position of \$85,429 for the year ended December 31, 2012.

### THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Governmental Funds as listed in the Table of Contents) reported a *combined* fund balance of \$14,143,275, an increase of \$1,548,723 from the beginning of the year.

The net position of the County's General Fund increased by \$771,230, and all other government funds increased by \$777,493 as a result of standard governmental operations.

### General Fund Budgetary Highlights

Over the course of the year, the County Commission revised the budget several times.

The amendments resulted in a net increase to budgeted general fund expenses of \$637,276. Actual charges to expenditures were \$438,052 less than the final amended budget. Revenues were \$646,655 more than the final budget projection.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal 2012, the County had \$76,676,469 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below).

**Table 4**  
**Capital Assets at Year-End (Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$355,233	\$355,233	\$15,270,486	\$15,270,486	\$15,625,719	\$15,625,719
Land Improvements	3,670	4,589	15,514,915	15,712,717	15,518,585	15,717,306
Buildings	2,160,543	2,316,355	39,197,567	39,090,152	41,358,110	41,406,507
Equipment	999,787	948,414	1,604,200	1,066,336	2,603,987	2,014,750
Construction in Progress	-	-	286,965	258,713	286,965	258,713
Utility Systems	-	-	1,283,103	1,492,764	1,283,103	1,492,764
	<u>\$3,519,233</u>	<u>\$3,624,591</u>	<u>\$73,157,236</u>	<u>\$72,891,168</u>	<u>\$76,676,469</u>	<u>\$76,515,759</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

### Debt

At year end, the County had no outstanding debt.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the County's Budget for the year ending December 31, 2013, the economic health of Michigan was of concern. The deterioration of the state budget's revenue sources will result in less funding for local governments, including Marquette County. Marquette County's economy and tax base continue to perform better than the state average. The growth in taxable value absorbed the loss in state revenues for the 2013 budget. In 2013, specific ore tax revenue is expected to increase over previous years' levels; however, the potential negative impact of the possible closing of the Empire Mine is being monitored. With Marquette County facing state revenue reductions and operating expenditure pressures, our long-term obligations, primarily post-employment expenses and Sawyer Airport will be addressed. Elected officials and department managers are participating in strategic planning sessions to help us plan for the challenges we are facing.

### CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Administrator's Office at Marquette County Courthouse, Marquette, Michigan 49855.

THIS PAGE WAS LEFT BLANK INTENTIONALLY