



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, 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 76 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 99 percent, 99 percent, and 100 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component unit. 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 preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to 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 the County of Marquette, Michigan, as of December 31, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and analyses of funding progress information as listed on 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 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 opinions on the financial statements that collectively comprise the County of Marquette, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards (as presented in a separate report) 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 also not a required part of the basic financial statements.

The individual major fund financial statements, combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 individual major fund financial statements, combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Commissioners of the
County of Marquette, Michigan

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2015, on our consideration of the County of Marquette, Michigan'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 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 County of Marquette, Michigan's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC

Certified Public Accountants

April 24, 2015

County of Marquette, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of County of Marquette, Michigan, (the "County") we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here 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 \$103,161,964 (net position). Of this amount, \$28,395,730 (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 decreased by \$270,717. Net position of our business-type activities decreased by \$1,167,725, and net position of our governmental activities increased by \$897,008.

The County contribution for Other Post-Employment Benefits (OPEB) is based on pay-as-you-go financing requirements. For the current year, contributions of \$2,031,577 did not equal the current year's annual required contribution (ARC). A liability of \$1,303,888 was recorded for the unfunded portion of the current year's ARC.

During the year, the County had expenses for governmental activities that were \$33,928,434, and expenses for business-type activities that were \$20,488,267.

The General Fund reported a net fund balance of \$7,057,791, an increase of \$968,819. At the end of the current fiscal year, unrestricted and unassigned fund balance for the General Fund was \$6,107,808, or 24.85% 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, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most

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

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/deferred outflows of resources and liabilities/deferred inflows of resources - as one way to measure the County's financial health, or *financial position*. Over time, *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, Foreclosure, 100% Tax Payment, 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, 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.

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

- *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.

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, 2014.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$35,444,958	\$32,358,059	\$22,549,917	\$21,128,246	\$57,994,875	\$53,486,305
Capital assets	3,683,154	3,648,520	69,796,194	72,261,582	73,479,348	75,910,102
Total Assets	39,128,112	36,006,579	92,346,111	93,389,828	131,474,223	129,396,407
Other liabilities	2,141,979	1,831,348	1,163,724	1,102,637	3,305,703	2,933,985
Long-term liabilities	10,926,046	9,662,787	915,649	852,728	11,841,695	10,515,515
Total Liabilities	13,068,025	11,494,135	2,079,373	1,955,365	15,147,398	13,449,500
Deferred inflows of resources	13,164,861	12,514,226	-	-	13,164,861	12,514,226
Net Position:						
Net investment in capital assets	3,683,154	3,648,520	69,796,194	72,261,582	73,479,348	75,910,102
Restricted	350,634	296,141	936,252	-	1,286,886	296,141
Unrestricted	8,861,438	8,053,557	19,534,292	19,172,881	28,395,730	27,226,438
Total Net Position	\$12,895,226	\$11,998,218	\$90,266,738	\$91,434,463	\$103,161,964	\$103,432,681

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

Net position of the County's governmental activities stood at \$12,895,226. *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 \$8,861,438. The \$8,861,438 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. For 2014, unrestricted net position increased by \$897,008.

The net position of our business-type activities stood at \$90,266,738. The County can generally only use the net position to finance continuing operations of the business-type activities.

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 2014.

**Table 2
Change in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Program Revenues:						
Charges for services	\$4,486,049	\$4,606,971	\$16,936,431	\$17,757,284	\$21,422,480	\$22,364,255
Operating grants and contributions	6,803,311	6,696,511	(2,504)	102,280	6,800,807	6,798,791
Capital grants and contributions	-	259,923	20,307	1,889,558	20,307	2,149,481
General Revenues:						
Property taxes	20,125,854	19,663,147	-	-	20,125,854	19,663,147
State sources	1,099,459	987,833	-	-	1,099,459	987,833
Interest and miscellaneous	2,749,019	1,823,672	1,928,058	20,225	4,677,077	1,843,897
Total Revenues	35,263,692	34,038,057	18,882,292	19,769,347	54,145,984	53,807,404
Program Expenses:						
Legislative	267,408	236,134	-	-	267,408	236,134
Judicial	6,269,721	6,929,317	-	-	6,269,721	6,929,317
Elections	53,942	18,484	-	-	53,942	18,484
Management	1,683,926	1,485,851	-	-	1,683,926	1,485,851
Public Records	1,968,718	1,813,577	-	-	1,968,718	1,813,577
Public Safety	8,731,615	8,671,638	-	-	8,731,615	8,671,638
Human Services	5,447,474	5,589,915	-	-	5,447,474	5,589,915
Resource Management	3,014,765	2,316,031	-	-	3,014,765	2,316,031
Other	6,490,865	6,248,454	-	-	6,490,865	6,248,454
Medical Care Facility	-	-	14,620,209	14,272,021	14,620,209	14,272,021
Airport	-	-	3,996,262	4,109,844	3,996,262	4,109,844
Forestry	-	-	302,877	270,504	302,877	270,504
Foreclosure	-	-	109,355	204,127	109,355	204,127
100% Tax Payment	-	-	3,573	33,869	3,573	33,869
Sewer Fund	-	-	1,006,667	1,094,961	1,006,667	1,094,961
Water Fund	-	-	449,324	388,930	449,324	388,930
Total Expenses	33,928,434	33,309,401	20,488,267	20,374,256	54,416,701	53,683,657
Excess (deficiency) before transfers	1,335,258	728,656	(1,605,975)	(604,909)	(270,717)	123,747
Transfers	(438,250)	(210,000)	438,250	210,000	-	-
Increase (decrease) in net position	897,008	518,656	(1,167,725)	(394,909)	(270,717)	123,747
Net Position, Beginning, as restated	-	11,479,562	-	91,829,372	-	103,308,934
Net Position, Beginning	11,998,218	-	91,434,463	-	103,432,681	-
Net Position, Ending	\$12,895,226	\$11,998,218	\$90,266,738	\$91,434,463	\$103,161,964	\$103,432,681

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

The County's total revenues were \$54,145,984. The total cost of all programs and services was \$54,416,701, resulting in a decrease in net position of \$270,717. 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 \$897,008 for the year ended December 31, 2014.

Expenses for the year ended December 31, 2014, increased \$619,033 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	
	2014	2013	2014	2013
Public Safety	\$8,731,615	\$8,671,638	\$7,110,782	\$6,809,280
Judicial	6,269,721	6,929,317	2,455,140	3,027,179
Human Services	5,447,474	5,589,915	2,259,210	2,175,115
Resource Management/Development	3,014,765	2,316,031	2,106,715	1,628,835
Other	6,490,865	6,248,454	6,338,779	6,125,420

Business-type Activities

During the year ended December 31, 2014, the net position of the County's business-type activities decreased by \$1,167,725.

Although the Medical Care Facility Fund reported an operating loss of \$185,451, non-operating revenues and intergovernmental transfers resulted in an increase in net position of \$134,861.

The Airport Fund reported an operating loss of \$2,070,746. The Airport Fund recorded depreciation expenses of \$1,890,215.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The Sewer Fund reported an operating loss of \$57,322. This amount included depreciation expense of \$262,486.

The Water Fund reported an operating income of \$18,673. This amount included depreciation expense of \$126,566.

The Forest Recreation Fund reported an operating loss of \$78,651. This amount included depreciation expenses of \$25,952.

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 \$17,012,990, an increase of \$1,645,997 from the beginning of the year.

The net position of the County’s General Fund increased by \$968,819, and all other government funds increased by \$677,178 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 \$431,387. Actual charges to expenditures were \$653,152 less than the final amended budget. Revenues were \$731,238 more than the final budget projection.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2014, the County had \$73,479,348 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	
	2014	2013	2014	2013	2014	2013
Land	\$355,233	\$355,233	\$15,270,486	\$15,270,486	\$15,625,719	\$15,625,719
Land improvements	1,837	2,751	16,165,949	16,778,015	16,167,786	16,780,766
Buildings	1,954,197	2,023,556	36,737,590	38,012,102	38,691,787	40,035,658
Equipment	1,371,887	1,266,980	810,637	1,123,592	2,182,524	2,390,572
Construction in progress	-	-	180,240	120,190	180,240	120,190
Utility systems	-	-	631,292	957,197	631,292	957,197
Totals	\$3,683,154	\$3,648,520	\$69,796,194	\$72,261,582	\$73,479,348	\$75,910,102

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 Budget for the year ending December 31, 2015, the economic health of Michigan continues to be a concern. As in the past, only about 50% of the cost to carry out state mandates, or required services, is funded by state revenues. The responsibility for funding services continues to fall at the local level. Marquette County's economic base continues to receive short-term relief from the extended operations of the Empire Mine through 2015 and the Eagle Mine. However, there is still uncertainty as to the stability of state revenue sharing payments as well as other state funding. Marquette County is further facing potentially large tax reductions with current Tax Tribunal cases filed by WE Energies and other big box and junior box stores. Our long-term obligations, primarily post-employment expenses, and Sawyer Airport will continue to need to be monitored and addressed. Elected officials and department managers will be 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.