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

GOGEBIC COUNTY ROAD COMMISSION
BESSEMER, MICHIGAN

September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the period of nine months ended September 30, 2018, 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 from 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 of 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 and the major fund of Gogebic County Road Commission as of September 30, 2018, and the respective changes in financial position thereof for the period of nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note M to the financial statements, Gogebic County Road Commission implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Change in Accounting Period

Gogebic County Road Commission changed their accounting period year-end from December 31 to September 30. Therefore, the financial statements are for the period of nine months ended September 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information on pages 7 through 14 and 51 through 55, 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 supplemental 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 Gogebic County Road Commission's basic financial statements. The accompanying Other 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated July 31, 2019, 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 solely 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 effectiveness of Gogebic County Road Commission's 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
July 31, 2019

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 period of nine months ended September 30, 2018. 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 period of nine months ended September 30, 2018. The Commission changed their accounting period year-end to a September 30 fiscal year end during the 2018 year to match that of Gogebic County as well as the State of Michigan Department of Transportation.

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, deferred outflows/inflows, liabilities and net position. 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, deferred outflows/inflows and liabilities. The corresponding balance between the amounts equals the net position or deficit of the Commission. A deficit occurs when there are more liabilities and deferred inflows than there are assets and deferred outflows to pay those liabilities and deferred inflows. 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. Any deficiency of revenues over expenses results in a deficit for the year that in turn reduces the net position of the Commission.

During the nine month period ended September 30, 2018, the Commission implemented Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This is in addition to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which the Commission implemented during the year ended December 31, 2015. These statements are significant to the Government-wide financial statements and require participants in defined benefit plans to record the net pension and other postemployment liabilities in the statement of net position, record the pension and health insurance expense as defined by GASB in the statement of activities and report additional note disclosures and required supplemental information. These changes do not result in any changes to the governmental fund financial statements.

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 September 30, 2018 and December 31, 2017, condensed statement of net position with a detailed analysis of the statement below.

	Governmental Activities	
	September 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash	$ 2,883,738	$ 3,480,617
Investments	976,202	972,656
Accounts receivable	1,448,742	754,827
Inventories	584,706	644,224
Other current assets	60,737	38,250
Total Current Assets	$ 5,954,125	$ 5,890,574
Noncurrent Assets -		
Capital assets, net of allowances for depreciation	28,542,251	25,856,831
Total Assets	$ 34,496,376	$ 31,747,405
Deferred outflow of resources - related to pensions	$ 502,787	$ 873,972

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

Statement of Net Position (Continued)

	Governmental Activities	
	September 30, 2018	December 31, 2017
LIABILITIES		
Accounts payable	$ 635,138	$ 52,171
Other current liabilities	3,281,197	3,113,904
Total Current Liabilities	$ 3,916,335	$ 3,166,075
Long-term liabilities, less current portion	6,414,262	6,465,052
Total Liabilities	$ 10,330,597	$ 9,631,127
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	$ 634,685	$ 906,515
Related to pensions	106,777	389,372
Total Deferred Inflows of Resources	$ 741,462	$ 1,295,887
NET POSITION		
Investment in capital assets, net of related debt	$ 24,870,026	$ 22,067,106
Unrestricted	(942,922)	(372,743)
Total Net Position	$ 23,927,104	$ 21,694,363

The December 31, 2017 figures have not been updated for the implementation of GASB Statement No. 75.

The Commission's net position totals $23,927,104 at September 30, 2018. Capital assets, net of related debt are $24,870,026. 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 unrestricted net position reports an unrestricted deficit of $942,922 as of September 30, 2018. The unrestricted net position reports a deficit of $372,743 as of December 31, 2017. This is the net accumulated results of past years' operations. The deficit results from the recording of the net pension and net other postemployment benefits liabilities.

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 period of nine months ended September 30, 2018 and the year ended December 31, 2017.

Statement of Activities (Continued)

	Governmental Activities: For the period of nine months ended September 30, 2018	Governmental Activities: For the year ended December 31, 2017
Revenues:		
Program Revenues:		
Charges for services	$ 804,911	$ 1,519,668
Operating grants and contributions	4,508,144	5,609,254
Capital grants and contributions	2,878,047	1,559,407
	$ 8,191,102	$ 8,688,329
General Revenues:		
Interest	$ 41,195	$ 26,849
Net gain on asset disposals	3,803	142
	$ 44,998	$ 26,991
Total Revenues	$ 8,236,100	$ 8,715,320
Functions/Program Expenses - Public works	6,076,653	7,637,929
Change in Net Position	$ 2,159,447	$ 1,077,391

The Commission had an overall increase in net position of $2,159,447 for the period of nine months ended September 30, 2018.

The Commission's program revenues totaled $8,191,102 for the period of nine months ended September 30, 2018 and $8,688,329 for the year ended December 31, 2017. Of this amount, $1,847,091 or 23% was from federal grants for the period of nine months ended September 30, 2018 and $1,130,122 or 13%, for the year ended December 31, 2017. The federal revenues are included in the capital grants revenue category and were used to enhance the County road system.

State grants totaled $3,566,679 or 44% of total program revenues for the period of nine months ended September 30, 2018 and $3,894,487 or 45% for the year ended December 31, 2017. 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 2018 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.

Statement of Activities (Continued)

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 charged for those costs. Rent revenues totaled $1,460,918 or 18% of total revenues for the period of nine months ended September 30, 2018 and $1,714,767 or 19% for the year ended December 31, 2017. The revenues are categorized as operating grants.

The Commission's total cost to fund all governmental activities was $6,076,653 for the period of nine months ended September 30, 2018 and $7,637,929 for the year ended December 31, 2017. All of these costs were for repairs and maintenance on the road system in Gogebic County and for 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

The governmental fund financial statements report the Commission's finances on the modified accrual basis of accounting. The Commission reports a fund equity of $4,347,422 at September 30, 2018 and $4,686,245 at December 31, 2017. There was a decrease of $338,823 during the period of nine months ended September 30, 2018. Total expenditures reported were $7,150,702 for the period of nine months ended September 30, 2018 and $6,816,287 for the year ended December 31, 2017. Salaries and wages paid to employees totaled $1,401,171 or 20% of total expenditures and related fringes were $1,054,536 or 15% of total expenditures for period of nine months ended September 30, 2018. This is compared to amounts of $1,846,629 or 27% and $1,217,807 or 17% for the year ended December 31, 2017. Capital outlay purchases (excluding infrastructure additions) totaled $146,993 for the period of nine months ended September 30, 2018. The fund financial statements also included other financing source of $545,033 and other financing use of $545,033 related to financing and payment for operating lease activities.

Budgetary Comparison Schedules - Variance Analysis

The significant budget changes of the Commission for period of nine months ended September 30, 2018, included the following:

Original Budget to Final Budget	Original Budget	Final Budget	Budget Change
REVENUES			
Federal aid	$ 2,448,949	$ 1,766,449	$ (682,500)
State funds	3,238,122	3,529,188	291,066
Contributions	202,000	531,084	329,084
EXPENDITURES			
Primary roads	4,240,273	3,388,833	(851,440)
Local roads	1,488,333	2,265,941	777,608

Budgetary Comparison Schedules - Variance Analysis (Continued)

Federal aid revenue decreased as planned projects and projected costs of these projects are done five to six months prior to construction season and funding levels and actual costs are determined once projects are put out on bids. The costs of the projects have a direct effect on federal revenue.

State funds increased from additional State of Michigan funding received during the year that was not planned for when the original budget was adopted.

Contributions increased due to a private company paying the Commission for damage done to county roads when they were doing pipeline work.

The primary roads expenditures decreased and local roads expenditures increased due to changes in work plans. When the original budget was adopted for the period of nine months ended September 30, 2018, the Commission had a tentative plan of which projects would be completed in 2018 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 initial budget for the period of nine months ended September 30, 2018 was adopted by the Commission on December 26, 2017. Various amendments were made throughout the year with the final amendments made on September 24, 2018.

Final Budget to Actual	Final Budget	Actual	Variance
EXPENDITURES			
Primary roads	$ 3,388,833	$ 3,664,595	$ (275,762)
Equipment expense - net	(324,928)	116,362	(441,290)

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 fringe benefit expenses are allocated to each of the expenditure categories above. The actual distributive expense, prior to the allocation to expenses, was $849,792 for the period of nine months ended September 30, 2018. The final budget distributive expense was $927,252 for the period of nine months ended September 30, 2018.

Capital Assets

At September 30, 2018, the Commission had $28,542,251 invested in capital assets. This amount increased during the period of nine months ended September 30, 2018 by $2,685,420 consisting of additions totaling $4,221,807 and depreciation charges of $1,499,690. The additions included infrastructure additions of $4,073,329. Assets disposed of during the year had a historical cost of $187,921 and accumulated depreciation of $151,224. The infrastructure capitalized includes various road construction and reconstruction completed during 2018 that meets the State of Michigan Department of Transportation guidelines for capitalization.

Debt (excluding net pension and other postemployment benefit liabilities)

The Commission had $3,849,221 of long-term liabilities (excluding the pension and other postemployment benefit liabilities) at September 30, 2018. Accrued vacation and sick benefits payable to employees totals $176,996 and decreased $10,148 during 2018. Note payable to bank decreased due to the required payment being made during 2018. No payment was required on the State of Michigan Infrastructure Bank (SIB) program loan for the period of nine months ended September 30, 2018. A principal payment of $1,547,804 was applied against the SIB loan by the State of Michigan on October 22, 2018.

Net Pension and Other Postemployment Benefit (OPEB) Liabilities

The Commission had a net pension liability at September 30, 2018 of $4,585,352. Note F in the notes to the financial statements includes required disclosures related to the pension plan and required supplemental information is also included in the financial statements related to the pension plan. The Commission had a net OPEB liability at September 30, 2018 of $921,198. Note K in the notes to the financial statements includes required disclosures related to the OPEB plan and required supplemental information is also included in the financial statements related to the OPEB plan.

Future Considerations

A collective bargaining agreement with Local 662 is planned to be signed August 12, 2019. The three year agreement will start January 1, 2020 and end on December 31, 2022. The agreement will include the following changes; wage increases effective January 1, of 2020, 2021 and 2022 of 3.0%, 3.5% and 3.5%, respectively, for all employee classifications; Article 51(k) annual allowance increased from $200 to $300; Article 51(l) biannual allowance changed to as needed; and a non-binding mutual agreement to research the costs to the pension plan from 2.0% multiplier to either 2.25% or 2.5%.

Gogebic County experienced a devastating flood on July 11, 2016. The damage caused by the historic rain event caused severe damage to roads and infrastructure in north Ironwood Township. Total damage is estimated to be approximately $4.5 million. The Commission applied for and was approved for a State Infrastructure Bank (SIB) Loan totaling $3,431,500 to cover emergency repairs and replacement projects. Furthermore, the Federal Highway Administration (FHWA) approved Emergency Repair (ER) Funding for 16 locations along Lake Road with an estimated cost of $2,745,200. The SIB Loan was used as a funding bridge with FHWA in order to fast track the necessary construction projects on Lake Road. The SIB Loan is structured to have the ER program reimburse their portion of the SIB loan, $2,745,200 at zero percent interest with the Commission obligated to pay off the remainder of the loan of $686,300 at .75% interest over an eight year period starting in 2019. The ER program has applied funds against the SIB loan of $1,867,269 to date. The Commission is scheduled to make a payment of $877,932 in August 2019 and annual payments thereafter each August in the amount of $89,693 through 2026. The Commission will have the available funds to make these payments.

Future Considerations (Continued)

The Commission received a Federal Land Access Program Grant (FLAP) totaling $1,575,000 for the reconstruction of Thousand Island Lake Road in 2015. The total project cost is estimated at $2,695,194. The difference from total cost to the FLAP grant is $1,120,194 which will be paid for by Federal STP funds totaling $581,155 and local contributions totaling $539,039. Phase I of this project was completed in 2017, Phase II was completed in 2018 and Phase III is programmed for 2019. The Commission will have matching funds available for this project.

The Commission received another FLAP grant totaling $465,215 for the reconstruction of Black River Road scheduled to be done in 2020. The total cost of the project is estimated at $674,226 with $209,011 being local contributions from the Commission which will be available for this project.

The Commission was awarded Critical Bridge funding for the replacement of the Blackjack Bridge. Estimated cost for this project is $1,125,000 with $975,000 of the cost coming from the Critical Bridge program. The remaining project costs are for engineering and a local match by the Commission. The project is scheduled for 2020 and the Commission will have funds available for their portion of the project.

The Commission received a Transportation Alternative Program Grant (TAP) totaling $745,325 for the construction of Phase III of the Iron Belle non-motorized trail in Gogebic County. The local non-motorized trail group (Michigan's Western Gateway Trail Authority) is responsible for the planned project in 2020.

The Commission collaborated with the City of Ironwood and received a $350,000 Small Urban Grant for the reconstruction of Country Club Road and Ayer Street scheduled to be done in 2020. The total cost of the project is estimated at $487,500. The Commission has funding available for their share of the local match. The Commission plans to utilize State "D" Funds to reconstruct Kimberly Road. The total project cost is estimated at $422,074 with the Commission contributing $84,415 in a local match. The Commission plans to utilize Federal Surface Transportation Program Funds to reconstruct a portion of Planter Road. The total project cost is estimated at $609,286 with the Commission contributing $121,857 in a local match.

The Commission is no longer currently investigating the need for a new garage complex. Emphasis will be to properly maintain existing facilities.

The Commission is re-opening a gravel pit on the east side of Gogebic County. There are few gravel sources in the area and this pit will fill a necessary need to maintain gravel roads in an affordable way. The gravel source is estimated to be of significant size and will last for decades. The pit development will be funded by logging the 80 acre site around the approximate 10 acre gravel pit. The Gogebic County Forestry Commission has estimated that the select cut logging operation will generate approximately $60,000 for the Road Commission which will be used for pit development.

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

September 30, 2018

ASSETS		
Cash		$ 2,883,738
Investments		976,202
Accounts receivable:		
State of Michigan		1,086,442
Due from other governmental units		358,223
Due from others		4,077
Inventories:		
Equipment parts and materials		332,699
Road materials		252,007
Prepaid insurance		60,737
Capital assets, net of accumulated depreciation		28,542,251
	TOTAL ASSETS	$ 34,496,376
DEFERRED OUTFLOW OF RESOURCES		
Related to pensions		$ 502,787
LIABILITIES		
Accounts payable		$ 635,138
Due to State of Michigan		279,835
Interest payable		2,808
Salaries, wages and related benefits		57,045
Long term debt:		
Due in one year		2,941,509
Due in more than one year		907,712
Net pension liability		4,585,352
Net other postemployment benefit liability		921,198
	TOTAL LIABILITIES	$ 10,330,597
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue:		
Equipment and maintenance advances		$ 530,963
Commercial Forest funds		103,722
Related to pensions		106,777
		$ 741,462
NET POSITION		
Investment in capital assets, net of related debt		$ 24,870,026
Unrestricted		(942,922)
	TOTAL NET POSITION	$ 23,927,104

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

STATEMENT OF ACTIVITIES

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

GOVERNMENTAL FUNCTIONS		
Program expenses:		
Public works:		
Primary road maintenance	$	938,655
Local road maintenance		935,908
Services provided		879,198
Equipment expense		1,245,965
Net administrative expense		249,885
Other		16,810
Interest expense		3,034
Net compensated absences change		(10,148)
Net other postemployment benefits change		14,422
Net pension change		303,234
Depreciation expense		1,499,690
TOTAL PROGRAM EXPENSES	$	6,076,653
Program revenues:		
Charges for services	$	804,911
Operating grants and contributions:		
State Aid		3,047,226
Rents		1,460,918
Capital grants and contributions:		
Federal Aid		1,847,091
State Aid		519,453
Contributions from other governmental units		511,503
TOTAL PROGRAM REVENUES	$	8,191,102
NET PROGRAM REVENUES	$	2,114,449
General Revenues:		
Interest, dividends and rent	$	41,195
Gain on asset disposals		3,803
TOTAL GENERAL REVENUES	$	44,998
CHANGE IN NET POSITION FOR THE YEAR	$	2,159,447
Net position at January 1, 2018, as previously stated	$	21,694,363
Adoption of GASB Statement No. 75 - recognition of net other postemployment benefit liability		73,294
Net position at January 1, 2018, as restated	$	21,767,657
Net position at September 30, 2018	$	23,927,104

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

BALANCE SHEET - GOVERNMENTAL FUND

GOGEBIC COUNTY ROAD COMMISSION

September 30, 2018

ASSETS

Cash	$ 2,883,738
Investments	976,202
Accounts receivable:	
State of Michigan	1,086,442
Due from other governmental units	358,223
Due from others	4,077
Inventories:	
Equipment parts and materials	332,699
Road materials	252,007
Prepaid insurance	60,737
	$ 5,954,125

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY

Liabilities:	
Accounts payable	$ 635,138
Due to State of Michigan	279,835
Salaries, wages and related benefits	57,045
TOTAL LIABILITIES	$ 972,018
Deferred inflows of resources:	
Unavailable revenue:	
Equipment and maintenance advances	$ 530,963
Commercial Forest funds	103,722
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 634,685
Fund equity:	
Non-spendable for inventories and prepaid expenses	$ 645,443
Assigned:	
For future budgeting purposes	121,589
For post-employment benefits and emergencies	212,645
For future capital improvements	763,557
Unassigned	2,604,188
	$ 4,347,422
	$ 5,954,125

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

September 30, 2018

Total fund equity of the governmental fund		$ 4,347,422
Amounts reported for the governmental activities in the statement of net position are different because:		
Additions:		
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	$ 44,625,571	
Allowance for depreciation is	(16,083,320)	28,542,251
Deferred outflow of resources - related to pensions		502,787
Reductions:		
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.		(3,849,221)
Accrued interest payable on long-term debt is not included as a liability in governmental funds.		(2,808)
Deferred inflows of resources - related to pensions		(106,777)
Net pension liability		(4,585,352)
Net other postemployment benefit liability		(921,198)
Total net position of governmental activities		$ 23,927,104

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

For the period of nine months ended September 30, 2018

Total revenues	$	6,811,879
Total expenditures		7,150,702
Excess of revenues over expenditures	$	(338,823)
Other financing sources (uses):		
Proceeds for operating lease payments	$	545,033
Payments to leasing company		(545,033)
	$	0
Deficiency of revenues and other financing sources over expenditures and other financing uses	$	(338,823)
Fund balance at January 1, 2018		4,686,245
FUND BALANCE AT SEPTEMBER 30, 2018	$	4,347,422

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

STATEMENT OF REVENUES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Federal Aid:			
Surface Transportation Program		$ 388,190	
Critical Bridge funds		311,252	
Federal Lands Access Program		937,611	
Bureau of Indian Affairs		80,642	
Earmark Repurposed Funds		129,396	
	$1,766,449	$1,847,091	$ 80,642
State Aid:			
Michigan Transportation Fund:			
Engineering		$ 10,000	
Primary road		1,709,973	
Local road		762,536	
Primary urban road		37,931	
Local urban road		10,412	
Local Bridge Funds		19,453	
P.A. 82 of 2018 funds		241,485	
Economic Development - Forest Road funds		274,889	
Michigan Economic Development Grant funds		500,000	
	3,529,188	$3,566,679	37,491
County raised and other revenues:			
Contributions	531,084	511,503	(19,581)
Charges for services:			
State trunkline maintenance		$ 704,319	
State trunkline nonmaintenance		96,027	
Other		4,565	
	856,232	$ 804,911	(51,321)
Interest, dividends and rent	39,300	41,195	1,895
Gain on asset disposals	40,500	40,500	
Other	29,615		(29,615)
TOTAL REVENUES	$6,792,368	$6,811,879	$ 19,511

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

STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Primary road:			
Preservation - structural improvements		$ 2,522,008	
Maintenance		917,442	
Primary road structures:			
Preservation - structural improvements		203,932	
Maintenance		21,213	
	$ 3,388,833	$ 3,664,595	$ (275,762)
Local road:			
Preservation - structural improvements		$ 1,124,481	
Maintenance		928,904	
Local road structures -			
Preservation- structural improvements		222,908	
Maintenance		7,004	
	2,265,941	$ 2,283,297	(17,356)
Services provided:			
State trunkline maintenance		$ 783,172	
State trunkline nonmaintenance		96,026	
	932,232	$ 879,198	53,034
Equipment expense - net:			
Direct		$ 984,044	
Indirect		408,621	
Operating		184,615	
Less equipment rental		(1,460,918)	
	(324,928)	$ 116,362	(441,290)
Administrative expenses - net:			
Administrative expense		$ 331,827	
Less:			
Overhead - state trunkline maintenance		(81,756)	
Purchase discounts		(186)	
	169,618	$ 249,885	(80,267)

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

	Budget	Actual	Variance Favorable (Unfavorable)
Distributive expenses	927,252		927,252
Other - non-road related	20,350	18,295	2,055
Debt service:			
Principal		$ 117,500	
Interest		5,892	
	123,391	$ 123,392	(1)
Capital outlay - net:			
Capital outlay		$ 146,993	
Less depreciation		(331,315)	
	(262,843)	$ (184,322)	(78,521)
TOTAL EXPENDITURES	$ 7,239,846	$ 7,150,702	$ 89,144

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

For the period of nine months ended September 30, 2018

Total net change in fund balance - governmental fund		$ (338,823)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or construct capital assets are reported as expenditures in the 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 expense in the statement of activities. This is the amount by which capital outlay exceeds depreciation expense in the period.		
Depreciation expense	$ (1,499,690)	
Capital outlays	4,221,807	2,722,117
Repayment of principal on loans and notes payable is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not effect the statement of activities.		117,500
Gain on disposal - net book value of asset remaining at disposal		(36,697)
Interest on long-term debt in the statement of activities is recorded as the interest accrues regardless of when it is paid. In the governmental funds, interest is recorded as an expenditure when it is paid. The decrease of interest recorded in the statement of activities is due to the decrease in the accrued interest amount.		2,858
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.		10,148
In the statement of activities, operating expenses for pension and other postemployment related items are measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount earned for pension and other postemployment related items was more than the amount paid.		(317,656)
Change in net position of governmental activities		$ 2,159,447

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

NOTES TO FINANCIAL STATEMENTS

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 Gogebic 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.

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 2018 average unit production cost. Inventory items are charged to road construction, equipment maintenance, repairs and operations as they are used.

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 require 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 construction 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined Benefit Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Gogebic County Employees Retirement System (GCERS) and additions to/deductions from the GCERS fiduciary net position have been determined on the same basis as they are reported by the GCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 recognizes deferred outflows of resources for pension related items which are expensed in the plan years in which they apply.

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 and commercial forest revenues from the State of Michigan to be spent in future years and inflows related to pensions.

Other Postemployment Benefits Liability

The liability recorded in the Statement of Net Position for other postemployment benefits liability is based on an actuarially determined amount.

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 intact. 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 intact
- 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Policies (Continued)

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.

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 generally accepted accounting principles 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 October 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 September 30.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent events

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

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

A summary of changes in long-term liabilities (excluding net pension liability) follows:

	Balance at January 1, 2018	Additions	Deductions	Balance at September 30, 2018	Current Portion
Compensated absences:					
Vacation benefits	$ 81,822	$ 318		$ 82,140	
Sick leave benefits	105,322		$ 10,466	94,856	
	$ 187,144	$ 318	$ 10,466	$ 176,996	
Loan and note payable:					
Loan payable	$ 3,431,500			$ 3,431,500	$ 2,822,148
Note payable to bank	358,225		$ 117,500	240,725	119,361
	$ 3,789,725		$ 117,500	$ 3,672,225	$ 2,941,509
Other postemployment benefits	980,070		980,070		
TOTALS	$ 4,956,939	$ 318	$ 1,108,036	$ 3,849,221	$ 2,941,509

The other postemployment benefits payable were included in the restatement of net position at January 1, 2018 in the Statement of Activities.

The aggregate amounts of long-term debt principal and interest maturities (excluding compensated absences) for the five years ending September 30, 2023 and in five-year increments until maturity are:

	Principal	Interest	Total
2019	$ 2,941,509	$ 16,776	$ 2,958,285
2020	206,470	6,615	213,085
2021	85,746	3,947	89,693
2022	86,392	3,301	89,693
2023	87,042	2,651	89,693
2024-2026	265,066	4,011	269,077
	$ 3,672,225	$ 37,301	$ 3,709,526

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 fiscal year are to be paid to the employee in subsequent fiscal years.

NOTE D – LONG-TERM LIABILITIES (CONTINUED)

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.

Loan Payable

On August 24, 2016, the Commission approved a loan agreement with the State of Michigan Infrastructure Bank for emergency road repairs. Principal on the loan is payable annually with a payment of $1,547,807 due beginning October 22, 2018, a payment due August 24, 2019 of $1,287,086 and annually thereafter payments due of $89,693, payable in full on August 30, 2026. Interest on the loan is payable at an annual interest rate of .75%. The outstanding balance on the loan at September 30, 2018 totals $3,431,500. Annual principal and interest maturities are included above.

Note Payable

On November 7, 2016, the Commission approved a note agreement with the First National Bank of Wakefield to purchase equipment. The loan is collateralized by a security interest in the equipment purchased, is payable through January 15, 2020 and bears an interest rate of 1.65%. Principal and interest on the loan is payable annually totaling $123,392, beginning January 15, 2017. The outstanding balance on the note at September 30, 2018 totals $240,725. Annual principal and interest maturities are included above.

NOTE E – CAPITAL ASSETS

Following is a summary of the changes in the capital assets and allowances for depreciation for the period of nine months ended September 30, 2018:

	Balance at January 1, 2018	Additions	Deductions	Balance at September 30, 2018
Land, buildings, equipment and infrastructure:				
Land and improvements	$ 73,053			$ 73,053
Buildings	961,949	$ 8,587		970,536
Road equipment	5,377,582	133,836	$ 180,427	5,330,991
Shop equipment	48,839	1,720	3,286	47,273
Yard and storage equipment	177,694			177,694
Office equipment	86,095	4,335	4,208	86,222
Depletable assets	68,757			68,757
Infrastructure	33,797,717	4,073,329		37,871,046
TOTAL LAND, BUILDINGS EQUIPMENT AND INFRASTRUCTURE	$ 40,591,686	$ 4,221,807	$ 187,921	$ 44,625,572
Allowances for depreciation:				
Buildings	$ 667,203	$ 15,458		$ 682,661
Road equipment	4,265,217	302,282	$ 147,016	4,420,483
Shop equipment	37,343	1,711		39,054
Yard and storage equipment	46,169	7,972		54,141
Office equipment	69,500	4,399	4,208	69,691
Infrastructure	9,649,423	1,167,868		10,817,291
TOTAL ALLOWANCES FOR DEPRECIATION	$ 14,734,855	$ 1,499,690	$ 151,224	$ 16,083,321
NET CARRYING AMOUNT	$ 25,856,831	$ 2,722,117	$ 36,697	$ 28,542,251

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.

NOTE F – RETIREMENT SYSTEM

Plan Description

The Commission participates in the Gogebic County Employee Retirement System (Plan), a multi-employer defined benefit pension plan administered by Gogebic County. The plan provides certain retirement, disability and death benefits to plan members and beneficiaries and 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. The Plan issues a financial report that includes financial statements and required supplemental information. This report may be obtained by contacting the Gogebic County Retirement Board. The Plan has five divisions of which the Commission has its own division. The information below includes only the Commission unless otherwise specified.

Benefits Provided

	2018 Valuation
Benefit Multiplier	2 % Multiplier
Normal Retirement Age	55
Vesting	8 years
Early Retirement (Unreduced)	55/30
Early Retirement (Reduced)	60/8
Final Average compensation:	
Less than 30 year of service	Highest 5 consecutive years of last 10 years
30 or more years of service	Highest 3 consecutive years out of last 5 years
Employee Contributions	3% under \$4,200; 5% over \$4,200 for employees with less then 8 years of service

Employees covered by benefit terms

At the September 30, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	4
Active employees	32
	85

NOTE F – RETIREMENT SYSTEM (CONTINUED)

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Employer contributions to the Plan for the nine months ended September 30, 2018, were $388,198 based on annual payroll. The actuarial determined contribution rates to the Plan for the year ended September 30, 2018, were $451,614 based on annual payroll.

Net Pension Liability

The employer's Net Pension Liability was measured as of September 30, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the September 30, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.5% wage inflation; 2.5% price inflation

Salary Increases: 3.5% to 8.5% including inflation

Investment rate of return: 7.0%, net of administrative and investment expenses

Mortality rates used were based on the RP-2000 Mortality table (combined healthy), projected to 2017 using projection scale BB, set back 0 years for men and 0 years for women. At the date of adoption, mortality rates were adjusted to include margin for five years of future life improvement. These mortality tables were first used for the December 31, 2012 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plans target asset allocation as of September 30, 2018, these best estimates are summarized in the following table:

NOTE F – RETIREMENT SYSTEM (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	0.50%	-0.25 %
Domestic Equity - Large Cap	22.90	4.98
Domestic Equity - Small Cap	0.00	6.17
International Equity	25.10	6.02
Emerging Markets	6.20	8.74
Domestic Corporate Fixed Income	15.40	0.99
Domestic Government Fixed Income	7.70	0.33
Treasury Inflation Protected Securities	0.00	0.70
High Yield Bonds	0.00	2.76
Real Estate	5.00	4.30
Private Equity	5.00	8.16
Hedge Funds	8.60	4.20
Other Alternatives	3.60	4.17
Total	100.00%	
Total Real Rate of Return		4.50 %

Discount Rate

A single discount rate of 7.0% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.0%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Sensitivity of the net pension liability to changes in the single discount rate of one percent lower and one percent higher is included later in this note.

NOTE F – RETIREMENT SYSTEM (CONTINUED)

Calculating Net Pension Liability

Changes in Net Pension Liability		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at September 30, 2017	$ 11,017,166	$ 6,646,458	$ 4,370,708
Changes for the Year			
Service Cost	$ 201,766		$ 201,766
Interest on Total Pension Liability	750,839		750,839
Changes in Benefits	0		0
Difference between expected and actual experience	(40,598)		(40,598)
Changes in assumptions	0		0
Employer Contributions		$ 388,198	(388,198)
Employee Contributions		31,802	(31,802)
Net Investment Income (loss)		289,564	(289,564)
Benefit payments, including employee refunds	(783,310)	(783,310)	0
Administrative expense		(12,201)	12,201
Refunds	(252)	(252)	0
	$ 128,445	$ (86,199)	$ 214,644
Balances as of September 30, 2018	$ 11,145,611	$ 6,560,259	$ 4,585,352

NOTE F – RETIREMENT SYSTEM (CONTINUED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents Net Pension Liability of the employer, calculated using the discount rate of 7.0%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Total Pension Liability (a)	$ 12,275,821	$ 11,145,611	$ 10,176,578
Fiduciary Net Position (b)	6,560,259	6,560,259	6,560,259
Net Pension Liability (a) - (b)	$ 5,715,562	$ 4,585,352	$ 3,616,319

Pension Expense and Deferred Outflows of Resources Related to Pensions

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred (Inflows) Outflows of Resources
Differences in experience	$ 21,719	$ 128,496	$ (106,777)
Differences in assumptions	274,730	2,193	272,537
Net difference between projected and actual earnings on pension plan investments	339,533	109,283	230,250
Total	$ 635,982	$ 239,972	$ 396,010

NOTE F – RETIREMENT SYSTEM (CONTINUED)

Pension Expense and Deferred Outflows of Resources Related to Pensions (Continued)

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,	
2019	$ 306,594
2020	61,712
2021	(4,398)
2022	32,102
Net deferred outflows of resources	$ 396,010

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:

Type of Coverage	Coverage	Deductible
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.

NOTE G – RISK MANAGEMENT (CONTINUED)

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.

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 included 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 period of nine months ended September 30, 2018, the Commission incurred expenditures in certain of its budgetary activities in excess of the amounts appropriated.

NOTE J – FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires the Commission to report all federal and state revenues pertaining to the Commission. During the period of nine months ended September 30, 2018, the Commission incurred federal expenditures totaling $1,766,450 for contracted projects and $80,642 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. The contracted federal projects are not subject to the audit requirements of the *Uniform Guidance* (Single Audit), as they are included in MDOT's Single Audit. Negotiated projects are projects performed by the Commission's employees or private contractors, paid for and administered by the Commission and are subject to Single Audit if the federal expenditures exceed $750,000.

NOTE K – POSTEMPLOYMENT HEALTH BENEFITS

Plan Description

Plan Administration

The Commission established and administers the Gogebic County Road Commission OPEB Plan (Plan), a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees of the Commission hired prior to January 1, 2010. The Commission can amend the Plan at its discretion.

Those hired by the Commission after January 1, 2010 are not eligible for the Plan.

As of September 30, 2018, the Plan does not have irrevocable assets and is being funded on a pay-as-you-go basis.

Benefits Provided

In addition to the pension benefits described in Note F, the Commission provides postemployment health care benefits through the Plan. Employees hired prior to January 1, 2010, who retire on or after attaining age 55 with 30 years of service or age 60 with 8 years of service shall be eligible for medical coverage for the retiree, spouse and dependents until the retiree attains age 65. Payment in lieu of benefit is $300 for single, $350 for employee and spouse and $400 for a family per month. The Plan includes a surviving spouse benefit where the premiums paid are amounts in excess of the P.A. 152 allowed contributions. In the event of duty death, the surviving spouse is entitled to deferred coverage from age 55 to Medicare eligibility if employee accrued 8 years of service. For non-duty death, the surviving spouse entitled to deferred coverage from age 55 to Medicare eligibility if employee was eligible for normal retirement. Benefits are provided through a third-party insurer.

NOTE K – POSTEMPLOYMENT HEALTH BENEFITS (CONTINUED)

Plan Membership

At September 30, 2018, the year of the most recent valuation containing census data, the Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	8
Active plan members	18
	26

Contributions

The Plan was established and is being funded under authority of the Commission and under agreements with the union representing various classes of employees. The Plan's funding policy is that the employer will fund the plan on a pay-as-you-go basis. That is, benefit payments will be made from general operating funds. There are no long-term contracts for contributions to the Plan. The plan has no legally required reserves. For the period of nine months ended September 30, 2018, the Commission contributed $56,447 to the Plan.

Total OPEB Liability of the Commission

The Commission's total OPEB liability was measured as of September 30, 2018 by an actuarial valuation as of September 30, 2018. The entry age normal cost method was used in the actuarial valuation.

Actuarial Assumptions

The Commissions total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.0% - expected future pay increases
Salary increases	2.0%
Investment rate of return	N/A - the plan does not have irrevocable asssets
Municipal bond rate	20 year Aa Municipal bond rate - 3.0%
Healthcare cost trend	8.0% for 2018, graded down to 5% over six years

Mortality rates were based on 2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables, the most up-to-date industry studies as published by the IRS.

NOTE K – POSTEMPLOYMENT HEALTH BENEFITS (CONTINUED)

Actuarial Assumptions (Continued)

Utilization rates of the Plan are based on historical trends where 100% of covered employees at the valuation date will elect coverage at retirement, employees electing a stipend in-lieu of coverage will elect "in-lieu" at retirement and actual coverage is used for non-active employees.

The P.A. 152 allowed contributions used are $6,561 for single coverage and $13,270 for a married couple and is based on the actual maximum published by the Michigan Department of Treasury for 2018. Inflation on P.A. 152 allowed contributions is 3.5%.

No turnover rate is expected and therefore none is used.

Retirement rates are 20% for employees aged 55-59, 50% for those aged 60-61 and 100% for those 62 and over.

The dependent coverage assumption are based on current employer demographics where 50% of future retirees will have a covered spouse at retirement, with females three years younger than males and no future retirees will have a covered dependent child at retirement.

The claims costs assumption is based on industry acceptable methods for age-weighting actual premiums paid.

Investments

The Plan does not have irrevocable assets.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.0% as of September 30, 2018 which is equal to the municipal bond rate for the period. The projection of cash flows used to determine the discount rate assumed that Commission contributions will continue on a pay-as-you-go basis.

NOTE K – POSTEMPLOYMENT HEALTH BENEFITS (CONTINUED)

Calculating Net OPEB Liability

Changes in Net OPEB Liability	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at January 1, 2018	$ 906,776		$ 906,776
Changes for the year:			
Service Cost	$ 50,067		$ 50,067
Interest on Total OPEB Liability	20,802		20,802
Changes in Benefits	0		0
Difference between expected and actual experience	0		0
Changes in assumptions	0		0
Employer Contributions from operating funds		$ 56,447	(56,447)
Employee Contributions		0	0
Net Investment Income		0	0
Benefit payments, including employee refunds	(56,447)	(56,447)	
Administrative expense		0	0
Other changes	0	0	0
Net changes	$ 14,422	$ 0	$ 14,422
Balances at September 30, 2018	$ 921,198	$ 0	$ 921,198

NOTE K – POSTEMPLOYMENT HEALTH BENEFITS (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is a one percentage point lower (2.0 percent) or a one percentage point higher (4.00 percent) than the current discount rate

	1% Decrease (2.0%)	Discount Rate (3.0%)	1% Increase (4.0%)
Net OPEB liability	$ 960,427	$ 921,198	$ 882,467

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are a one percentage point lower (7% decreasing to 4.0 %) or a one percentage point higher (9% decreasing to 6.0 %) than the current healthcare cost trend rates:

	1% Decrease (7.0% decreasing to 4.0%	Healthcare Cost Trend Rates (8.0% decreasing to 5.0%	1% Increase (9.0% decreasing to 6.0%
Net OPEB liability	$ 859,593	$ 921,198	$ 989,461

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2018 the Commission recognized OPEB expense of $70,869. The Commission reported no deferred outflows and inflows of resources related to OPEB.

NOTE L – OPERATING LEASES

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 beginning in 2013. This lease expired March 25, 2018.

On July 20, 2017, the Commission approved the leasing of four motor graders. The lease is for sixty months with annual rental payments of $122,072 beginning in 2017. The lease includes a guaranteed buy-back of the four motor graders for $649,001 by the leasing company at the end of the lease term if the Commission exercises the buy-back agreement.

On April 18, 2018, the Commission entered into a lease agreement to acquire three wheel loaders. The lease term is for sixty months with annual rental payments of $47,855 beginning in 2018 through 2021 with a balloon payment due of $368,000 in 2022. The Commission secured financing from a local bank at 2.85% related to the lease agreement. The lease includes a guaranteed buy-back of the three wheel loaders for $368,000 by the leasing company at the end of the lease term. The Commission intends to exercise the buy-back agreement at the end of the lease term. The local bank is the lien-holder of the 5 year lease option.

Future minimum rental payments related to the leases are as follows:

Year ending September 30,	Total
2019	$ 169,957
2020	169,957
2021	169,957
2022	47,885
2023	368,000
	$ 925,756

NOTE M – NEW ACCOUNTING STANDARDS

During the period of nine months ended September 30, 2018, the Commission implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 75 requires governments that participate in defined benefit other postemployment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires employers administering plans to record a liability and expense equal to their net OPEB liability and expense for the plans. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement of the beginning of the year net position as a result of implementation of GASB Statement No. 75 is shown in the Statement of Activities.

NOTE N - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, was issued in June 2017 and will be effective for the Commission's 2021 fiscal year. The objective of this Statement is to increase the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

	Original Budget	Final Budget	Actual
REVENUES			
Federal aid	$2,448,949	$ 1,766,449	$ 1,847,091
State funds	3,238,122	3,529,188	3,566,679
Contributions	202,000	531,084	511,503
Charges for services	840,000	856,232	804,911
Interest, dividends and rent	9,000	39,300	41,195
Other	5,800	29,615	
Gain on asset disposals		40,500	40,500
TOTAL REVENUES	$6,743,871	$ 6,792,368	$ 6,811,879
EXPENDITURES			
Primary roads	$4,240,273	$ 3,388,833	$ 3,664,595
Local roads	1,488,333	2,265,941	2,283,297
Services provided - state trunkline	840,000	932,232	879,198
Equipment expense - net	(242,928)	(324,928)	116,362
Administrative expense - net	175,303	169,618	249,885
Distributive expenses	806,462	927,252	
Other - non road projects	15,000	20,350	18,295
Debt service	123,425	123,391	123,392
Capital outlay - net	(215,264)	(262,843)	(184,322)
TOTAL EXPENDITURES	$7,230,604	$ 7,239,846	$ 7,150,702
DEFICIENCY OF REVENUES OVER EXPENDITURES	$ (486,733)	$ (447,478)	$ (338,823)
OTHER FINANCING SOURCES (USES)			
Proceeds for operating lease payments			$ 545,033
Payments to leasing company			(545,033)
	$ 0	$ 0	$ 0
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	$ (486,733)	$ (447,478)	$ (338,823)
Fund balance at January 1, 2018	4,686,245	4,686,245	4,686,245
FUND BALANCE AT SEPTEMBER 30, 2018	$4,199,512	$ 4,238,767	$ 4,347,422

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

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY, RELATED RATIOS AND NOTES

GOGEBIC COUNTY ROAD COMMISSION

	Year ended			
	September 30, 2018	September 30, 2017	September 30, 2016	December 31, 2015
Total Pension Liability				
Service Cost	$ 201,766	$ 222,607	$ 127,802	$ 203,945
Interest	750,839	732,471	552,724	745,149
Changes of Benefit Terms	0	0	0	0
Difference between expected and actual experience	(40,598)	(168,758)	78,198	(301,378)
Changes of assumptions	0	258,761	484,709	(100,503)
Benefit payments including employee refunds	(783,562)	(760,957)	(545,393)	(691,105)
Net Change in Total Pension Liability	$ 128,445	$ 284,124	$ 698,040	$ (143,892)
Total Pension Liability, beginning	11,017,166	10,733,042	10,035,002	10,178,894
Total Pension Liability, ending	$ 11,145,611	$ 11,017,166	$ 10,733,042	$ 10,035,002
Plan Fiduciary Net Position:				
Contributions-employer	$ 388,198	$ 314,091	$ 326,968	$ 453,909
Contributions-employee	31,802	30,387	17,150	18,833
Net Investment income (loss)	289,564	619,071	309,530	(257,025)
Benefit payments including employee refunds	(783,562)	(760,957)	(545,393)	(691,105)
Administrative expense	(12,201)	(12,567)	(11,522)	(14,958)
Net Change in Plan Fiduciary Net Position	$ (86,199)	$ 190,025	$ 96,733	$ (490,346)
Plan Fiduciary Net Position, beginning	6,646,458	6,456,433	6,359,700	6,850,046
Plan Fiduciary Net Position, ending	$ 6,560,259	$ 6,646,458	$ 6,456,433	$ 6,359,700
Employer Net Pension Liability	$ 4,585,352	$ 4,370,708	$ 4,276,609	$ 3,675,302
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	59%	60%	60%	63%
Covered Employee Payroll (from GASB 68 actuarial page)	$ 1,526,410	$ 1,383,197	$ 1,590,893	$ 1,335,178
Employer's Net Pension Liability as a percentage of covered employee payroll	300%	316%	269%	275%

Notes to schedule:

This schedule is presented to illustrate the Commission's pension liability in the Gogebic County Employees Retirement System for the last 10 fiscal years. However, until a full 10 year trend is compiled, the Commission presents information for those years for which information is available.

Annual valuations occurred on December 31 prior to 2016.

Changes of benefit terms: There were no changes of benefit terms.

SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS AND RELATED NOTES

GOGEBIC COUNTY ROAD COMMISSION

	Year ended September 30, 2018	September 30, 2017	September 30, 2016	December 31, 2015
Actuarial Determined Contributions	$ 451,614	$ 383,743	$ 326,968	$ 453,909
Contributions in relation to the actuarially determined contribution	388,198	314,091	326,968	453,909
Contribution deficiency (excess)	$ 63,416	$ 69,652	$ 0	$ 0
Covered Employee Payroll	$ 1,526,410	$ 1,383,197	$ 1,590,893	$ 1,335,178
Contributions as a percentage of covered employee payroll	25%	23%	21%	34%

Notes to Schedule:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	5-year smoothed market; 20% corridor
Inflation	3.5% wage inflation; 2.75% price inflation
Salary increases	3.5% to 8.5% including inflation
Investment rate of return	7.0%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	The RP-2000 Mortality table (combined healthy), projected to 2017 using projection scale BB, set back 0 years for men and 0 years for women. At the date of adoption, mortality rates were adjusted to include margin for five years of future life improvement. Last updated for the 2012 valuation.

Changes of assumptions:

September 30, 2017 - the investment rate of return was increased from 7.0% to 7.5%.

September 30, 2018:

Price inflation decreased from 2.75% to 2.5%

Salary increases went from 3.5% to 8% to 3.5% to 8.5% including inflation

Investment rate of return decreased from 7.5% to 7.0%

This schedule is presented to illustrate the Commission's contributions to the Gogebic County Employees Retirement System for the last 10 fiscal years (amounts were determined as of December 31 of each fiscal year until 2016). However, until a 10 year trend is compiled, reporting units should present information for those years for which information is available.

SCHEDULE OF CHANGES IN EMPLOYER'S NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY, RELATED RATIOS AND NOTES

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

Total OPEB Liability		
Service Cost	$	50,067
Interest		20,802
Changes of Benefit Terms		0
Difference between expected and actual experience		0
Changes of assumptions		0
Benefit payments including refunds		(56,447)
Net Change in OPEB Liability	$	14,422
Total OPEB Liability, beginning		906,776
Total OPEB Liability, ending	$	921,198
Plan Fiduciary Net Position:		
Contributions-employer	$	56,447
Contributions-employee		0
Net Investment income (loss)		0
Benefit payments including refunds		(56,447)
Administrative expense		0
Net Change in Plan Fiduciary Net Position	$	0
Plan Fiduciary Net Position, beginning		0
Plan Fiduciary Net Position, ending		0
Employer Net OPEB Liability	$	921,198
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability		0%
Covered Employee Payroll	$	650,257
Employer's Net OPEB Liability as a percentage of covered employee payroll		142%

Notes to schedule:

This schedule is presented to illustrate the Commission's OPEB liability in the Gogebic County Road Commission OPEB plan for the last 10 fiscal years. However, until a full 10 year trend is compiled, the Commission presents information for those years for which information is available.

Changes of benefit terms: There were no changes of benefit terms.

Changes of assumptions: There were no changes of assumptions.

SCHEDULE OF EMPLOYER'S OTHER POSTEMPLOYMENT BENEFITS CONTRIBUTIONS AND RELATED NOTES

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

Actuarial Determined Contributions	$	159,060
Contributions in relation to the actuarially determined contribution		56,447
Contribution deficiency (excess)	$	102,613
Covered Employee Payroll	$	650,257
Required contributions as a percentage of covered employee payroll		24%

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay, amortization of unfunded liability
Remaining amortization period	9 year
Asset valuation method	N/A
Inflation	2.0%
Salary increases	2.0%
Investment rate of return	N/A
Municipal bond rate	20 year Aa Municipal bond rate - 3.0%
Health care cost trend rate	8% for 2018, graded down to 5% over six years
Mortality	The 2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables

Notes to Schedule:

This schedule is presented to illustrate the Commission's OPEB liability in the Gogebic County Road Commission OPEB plan for the last 10 fiscal years. However, until a full 10 year trend is compiled, the Commission presents information for those years for which information is available.

Changes of benefit terms: There were no changes of benefit terms.

Changes of assumptions: There were no changes of assumptions.

OTHER FINANCIAL INFORMATION

ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total revenues	$ 3,952,921	$ 1,729,057	$ 1,129,901	$ 6,811,879
Total expenditures	3,827,687	2,419,542	903,473	7,150,702
Excess (deficiency) of revenues over expenditures	$ 125,234	$ (690,485)	$ 226,428	$ (338,823)
Other financing sources (uses):				
Proceeds for operating lease payments			$ 545,033	$ 545,033
Payments to leasing company			(545,033)	(545,033)
Optional transfers	$ (690,485)	$ 690,485		
	$ (690,485)	$ 690,485	$ 0	$ 0
Excess of revenues and other financing sources over expenditures and other financing uses	$ (565,251)	$ 0	$ 226,428	$ (338,823)
Fund balance at January 1, 2018	2,888,307	478,624	1,319,314	4,686,245
FUND BALANCE AT SEPTEMBER 30, 2018	$ 2,323,056	$ 478,624	$ 1,545,742	$ 4,347,422

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

ANALYSIS OF REVENUES

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Federal Aid:				
Surface Transportation Program	$ 388,190			$ 388,190
Critical Bridge funds	148,578	$ 162,674		311,252
Federal Lands Access Program	937,611			937,611
Bureau of Indian Affairs	80,642			80,642
Earmark Repurposed Funds	129,396			129,396
	$ 1,684,417	$ 162,674		$ 1,847,091
State Aid:				
Michigan Transportation Fund:				
Engineering	$ 6,916	$ 3,084		$ 10,000
Allocation	1,709,973	762,536		2,472,509
Urban road	37,931	10,412		48,343
	$ 1,754,820	$ 776,032		$ 2,530,852
Local Bridge Funds	9,286	10,167		19,453
P.A. 82 of 2018 funds	144,891	96,594		241,485
Economic Development - Forest Road funds	274,889			274,889
Michigan Economic Development Grant funds	59,751	440,249		500,000
	$ 2,243,637	$ 1,323,042		$ 3,566,679
County raised and other revenues:				
Contributions:				
Other governmental units	$ 24,867	$ 243,341	$ 19,295	$ 287,503
Other			224,000	224,000
Charges for services:				
State trunkline maintenance			704,319	704,319
State trunkline nonmaintenance			96,027	96,027
Salvage			4,105	4,105
Other			460	460
Interest, dividends and rent			41,195	41,195
Gain on asset disposals			40,500	40,500
	$ 24,867	$ 243,341	$ 1,129,901	$ 1,398,109
TOTAL REVENUES	$ 3,952,921	$ 1,729,057	$ 1,129,901	$ 6,811,879

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

ANALYSIS OF EXPENDITURES

GOGEBIC COUNTY ROAD COMMISSION

For the period of nine months ended September 30, 2018

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary road:				
Preservation - structural improvements	$ 2,522,008			$ 2,522,008
Maintenance	917,442			917,442
Primary road structures:				
Preservation - structural improvements	203,932			203,932
Maintenance	21,213			21,213
	$ 3,664,595			$ 3,664,595
Local road:				
Preservation - structural improvements		$ 1,124,481		$ 1,124,481
Maintenance		928,904		928,904
Local road structures:				
Preservation - structural improvements		222,908		222,908
Maintenance		7,004		7,004
		$ 2,283,297		$ 2,283,297
Services provided:				
State trunkline maintenance			$ 783,172	$ 783,172
State trunkline nonmaintenance			96,026	96,026
			$ 879,198	$ 879,198
Equipment expense - net	35,526	44,661	36,175	116,362
Administrative expenses - net	153,958	95,927		249,885
Capital outlay - net	(38,731)	(16,682)	(128,909)	(184,322)
Debt service:				
Principal	$ 11,750	$ 11,750	$ 94,000	$ 117,500
Interest	589	589	4,714	5,892
	$ 12,339	$ 12,339	$ 98,714	$ 123,392
Other - non-road projects			18,295	18,295
TOTAL EXPENDITURES	$ 3,827,687	$ 2,419,542	$ 903,473	$ 7,150,702

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 and major fund of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the period of nine months ended September 30, 2018, 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 July 31, 2019.

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 2018-001, that we consider to be a significant deficiency.

2018-001 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 period of nine months ended September 30, 2018, 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 Finding

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, Pollack & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
July 31, 2019