IRON ORE HERITAGE RECREATION AUTHORITY
OF THE COUNTY OF MARQUETTE, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

<u>**TABLE OF CONTENTS**</u>

REQUIRED SUPPLEMENTARY INFORMATION

OTHER FINANCIAL INFORMATION

COMPLIANCE SECTION

COMMUNICATIONS SECTION

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Iron Ore Heritage Recreation Authority
P.O. Box 763
Marquette, Michigan 49855

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Iron Ore Heritage Recreation Authority (the Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors of the
Iron Ore Heritage Recreation Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of December 31, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Other Financial Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 DATE, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLC
Certified Public Accountants

DATE

IRON ORE HERITAGE RECREATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Iron Ore Heritage Recreation Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2018. Please read it in conjunction with the financial statements, as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- Net position for the Authority as a whole was reported at $3,126,614. Net position is comprised of 100% governmental activities.
- During the year, the Authority's total expenses were $240,570 while revenues from all sources totaled $362,589 resulting in an increase in net position of $122,019.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (as listed in the table of contents) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority finances.

Reporting the Iron Ore Heritage Recreation Authority as a Whole
One of the most important questions asked about the authority's finances is "Is the Iron Ore Heritage Recreation Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Iron Ore Heritage Recreation Authority as a whole and about its activities in a way that helps answer this question. These statements include *all* assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority' *net position* and changes in them. You can think of the Authority's net position - the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources - as one way to measure the Authority's financial health, or *financial position.* Over time, *increases or decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's operating base and the condition of the Authority's capital assets, to assess the *overall financial health* of the Iron Ore Heritage Recreation Authority.

In the Statement of Net Position and the Statement of Activities, we report all of the Authority's activities as governmental activities because the Authority's receives property taxes to cover the cost of services it provides.

Table 1 provides a summary of the Authority's net position as of December 31, 2018 and 2017:

Table 1
Net Position

	2018	2017
Current and other assets	$731,544	$557,886
Capital assets, net	2,733,034	2,779,191
Total Assets	3,464,578	3,337,077
Deferred outflows of resources	-	-
Current liabilities	8,290	7,751
Non-current liabilities	-	-
Total Liabilities	8,290	7,751
Deferred inflows of resources	329,674	324,731
Net Position:		
Net investment in capital assets	2,733,034	2,779,191
Restricted	-	-
Unrestricted	393,580	225,404
Total Net Position	$3,126,614	$3,004,595

Net position of the Authority governmental activities stood at $3,126,614. Unrestricted net position—the part of net position that could be used to finance day-to-day activities-stood at $393,580.

The $393,580 in unrestricted net position represents the accumulated results of all past years' operations. The results of this year's operations for the Authority as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal years 2018 and 2017.

Table 2
Changes in Net Position

	2018	2017
Operating Revenues:		
Program revenues	$40,760	$11,950
General revenues	321,829	364,744
Total Revenues	362,589	376,694
Operating Expenses:		
Recreation and culture	240,570	288,726
Total Expenditures	240,570	288,726
Increase (decrease) in net position	122,019	87,968
Net Position, beginning	3,004,595	2,916,627
Net Position, Ending	$3,126,614	$3,004,595

The Authority's total revenues were $362,589. The total cost of all programs and services was $240,570, leaving an increase in net position of $122,019 because of fiscal year 2018 operations.

The net increase for the current year of $120,019 is the result of $31,560 in capital outlays reclassified to assets, ($77,717) recorded as depreciation, $0 in principal payments reclassified as a reduction in liabilities, and a net increase from Governmental Funds of $168,176.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal years 2018 and 2017, the Authority had $2,733,034, and $2,779,191 invested in a variety of capital assets, including land and construction in progress. (See Table 3 below)

Table 3
Capital Assets
(Net of accumulated depreciation)

	2018	2017
Land	$325,000	$325,000
Construction in progress	-	-
Infrastructure	2,392,845	2,428,412
Equipment	15,189	25,779
Total	$2,733,034	$2,779,191

The Authority began construction of the Iron Ore Heritage Trail in 2010. In 2018, the Authority is almost complete with construction. During the year, several projects at different trailheads were completed. Several signs were purchased. The Authority disposed of no fixed assets during the fiscal year.

Further details on capital assets can be found in the notes to the financial statements.

Debt

The Authority had no outstanding debt at year-end..

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for the year ending December 31, 2019, the Authority considered new projects to be completed. Plans include shelters and fishing access in Marquette County, completing existing Trail Amenities Project, and various other trail improvements. Costs for construction projects will come from local sources, the Michigan Natural Resources Trust Fund Grant, and property tax revenue.

CONTACTING THE IRON ORE HERITAGE RECREATION AUTHORITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Joint Operations' finances and to show the Iron Ore Heritage Recreation Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Iron Ore Heritage Recreation Authority at:

Iron Ore Heritage Recreation Authority
P.O. Box 763
Marquette, Michigan 49855

Iron Ore Heritage Recreation Authority

STATEMENT OF NET POSITION

December 31, 2018

		Primary Government Governmental Activities
ASSETS		
Current Assets:		
Cash and cash equivalents	$	547,108
Receivables, net		184,436
Non-current Assets:		
Capital Assets:		
Land and construction in progress		325,000
Other capital assets, net		2,408,034
TOTAL ASSETS		3,464,578
DEFERRED OUTFLOWS OF RESOURCES		-
LIABILITIES		
Current Liabilities:		
Accounts payable		-
Accrued liabilities		8,290
Non-current Liabilities:		
Portion due or payable within one year		
Notes payable		-
Portion due or payable after one year		
Notes payable		-
TOTAL LIABILITIES		8,290
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period		329,674
TOTAL DEFERRED INFLOWS OF RESOURCES		329,674
NET POSITION		
Net investment in capital assets		2,733,034
Restricted		-
Unrestricted		393,580
TOTAL NET POSITION	$	3,126,614

Iron Ore Heritage Recreation Authority

STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position — Primary Government
Function / Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**
Primary Government:					
Governmental Activities:					
Recreation and culture	$ 240,570	$ -	$ 40,760	$ -	$ (199,810)
Total Governmental Activities	240,570	-	40,760	-	(199,810)
TOTAL PRIMARY GOVERNMENT	$ 240,570	$ -	$ 40,760	$ -	(199,810)

General Revenues:	
Property taxes	310,053
Local contributions	11,184
Interest earned	592
Miscellaneous	-
TOTAL GENERAL REVENUES	321,829
CHANGE IN NET POSITION	122,019
Net position, beginning of year	3,004,595
NET POSITION, END OF YEAR	$ 3,126,614

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

Iron Ore Heritage Recreation Authority

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2018

		General Fund
ASSETS		
Cash and cash equivalents	$	547,108
Accounts receivable		-
Taxes receivable		184,436
TOTAL ASSETS		731,544
DERERRED OUTFLOWS OF RESOURCES		-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	731,544
LIABILITIES		
Accounts payable	$	-
Accrued payroll and related		8,290
TOTAL LIABILITIES		8,290
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period		329,674
FUND BALANCE		
Non-spendable		-
Restricted		-
Committed		64,097
Assigned		-
Unassigned		329,483
TOTAL FUND BALANCE		393,580
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	$	731,544

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

Iron Ore Heritage Recreation Authority

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

December 31, 2018

Total Fund Balances for Governmental Funds		$ 393,580
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net accumulated depreciation.		2,733,034
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Current portion of note payable	$ -	
Note payable	-	-
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 3,126,614

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

Iron Ore Heritage Recreation Authority

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE

For the year ended December 31, 2018

	General Fund
REVENUES:	
Property taxes	$ 310,053
Federal sources	-
State sources	40,760
Local sources	11,184
Interest earned	592
Other	-
TOTAL REVENUES	362,589
EXPENDITURES:	
Current Operations:	
Recreation and culture	194,413
TOTAL EXPENDITURES	194,413
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	168,176
Fund balance, beginning of year	225,404
FUND BALANCE, END OF YEAR	$ 393,580

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

Iron Ore Heritage Recreation Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds		$ 168,176

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	$ 31,560	
Depreciation expense	(77,717)	
Gain (loss) on disposal	-	(46,157)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	-	-
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 122,019

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Iron Ore Heritage Recreation Authority (the Authority) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Authority are described below.

REPORTING ENTITY

The Authority of the County of Marquette, Michigan was created under the provisions of Act No. 321, Public Acts of 2000 (the “Recreational Authorities Act”) MCL 123.1131 in May of 2007 as a multi-jurisdictional special purpose type government. The three cities and five townships of the County of Marquette, Michigan entered into this agreement governing the composition and appointment of members of the governing body of the Authority. This area was established as the Iron Ore Heritage Recreation Authority by the City of Marquette, City of Negaunee, City of Ishpeming, Township of Chocolay, Township of Marquette, Township of Tilden, Township of Negaunee, and the Township of Republic encompasses the corporate boundaries of the City of Marquette, City of Negaunee, City of Ishpeming, Township of Chocolay, Township of Marquette, Township of Tilden, Township of Negaunee, and the Township of Republic.

The Authority’s Board consists of nine members with one appointed by each of the three cities and five townships and one appointed by the County of Marquette, Michigan comprising the Board of Directors. The Authority’s Board of Directors are given the powers to maintain and operate the Authority. The Authority’s operations are financed substantially through a tax millage and various grants available through the State of Michigan. The Authority’s purpose is to establish, implement and maintain a 47 mile, multi-use year-round trail known as the Iron Ore Heritage Trail – an entity to connect many small communities, provide education to local citizens and promote healthy lifestyles and community living.

BASIC FINANCIAL STATEMENTS – GOVERNMENT–WIDE FINANCIAL STATEMENTS

The Authority’s basic financial statements include both government-wide (reporting the Iron Ore Heritage Recreation Authority as a whole) and fund financial statements (reporting the Iron Ore Heritage Recreation Authority’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Iron Ore Heritage Recreation Authority’s operations are classified as governmental activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority’s net position are reported in three parts – net

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

investment in capital assets; restricted net position; and unrestricted net position. The Authority first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Authority's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net position resulting from the current year's activities. For the most part, the effect of interfund activities has been removed from these statements.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Authority are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Iron Ore Heritage Recreation Authority:

Governmental Funds
The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority:

- ***General Fund*** – General Fund is the general operating fund and, accordingly, it is used to account for all financial resources relating to the operation of the Authority.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Iron Ore Heritage Recreation Authority reports the following major governmental funds:

- ***General Fund*** – General Fund is the general operating fund and, accordingly, it is used to account for all financial resources relating to the operation of the Iron Ore Heritage Recreation Authority.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. “Available” means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting – The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

a. The Authority Administrator submits to the Authority Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

b. Numerous opportunities exist for public comment during the budget process including at least one formal public hearing conducted at the Country Inn and Suites of Marquette, Michigan to obtain taxpayer comment.

c. Pursuant to statute, prior to December 31 of each year the budget for the ensuing year is legally enacted through adoption of an Annual General Appropriations Act.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. The general statute governing Authority budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Authority Board of Directors, through policy action, specifically directs the Administrator not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.

Supplemental appropriations are submitted to and reviewed by the Administrator and submitted to the Authority Board of Directors for their review and approval. If approved, they are implemented by the Administrator through a budget revision.

e. The Authority adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary controls exist at the most detailed level adopted by the Board of Directors, i.e. department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e. classification control, resides at the line item detail level.

f. Budgets for the General Fund were adopted in substance on an accrual basis which is consistent with generally accepted accounting principles. Budgeted amounts as reported in the Financial Report are as originally adopted and/or amended by the Authority Board of Directors.

Cash Equivalents and Investments – For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value. The fair value measurements of investments is based on the hierarchy established by generally accepted accounting principles, which has three levels based on the valuation inputs used to measure an asset's fair value.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Authority has assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of five years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Infrastructure	30 – 40 years
Equipment	5 – 10 years

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

***Deferred Outflows of Resources* –** In addition to assets, the statement of financial position 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 period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any items that qualify for reporting in this category.

Long-Term Liabilities – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net position. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

Property Taxes – Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local unit and periodically remitted to the third parties during the collection period.

Compensated Absences –The Authority does not have any compensated absences.

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds balance sheet 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category.

> In the government-wide and governmental fund financial statements property taxes levied during the year that were recognized as an inflow of resources in the period that the amount becomes available.

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through DATE, the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash and Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government from the Statement of Net Position:

Unrestricted – Cash and cash equivalents	$547,108
TOTAL	$547,108

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. State law does not require and the Authority does not have a deposit policy for custodial credit risk. The carrying amounts of the primary government deposits with financial institutions were $547,108 and the bank balance was $547,519.

The bank balance is categorized as follows:

Amount insured by the FDIC:		$250,000
Uncollateralized and uninsured:		297,519
	TOTAL	$547,519

Investments

As of December 31, 2018, the Authority did not have any investments.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Authority's investments. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk
Michigan statutes (Act 196, PA 1997) authorize the Authority to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The Authority has no investment policy that would further limit its investment choices. The Authority's investments are rated as noted above. Ratings are not required for the Authority's investment in equity-type funds. The Authority's investments are in accordance with statutory authority.

Concentration of Credit Risk
The Authority places no limit on the amount the Authority may invest in any one issuer.

NOTE C – ACCOUNTS RECEIVABLE AND TAXES RECEIVABLE:

Receivables as of the year-end, including applicable allowances for uncollectible accounts, are as follows:

Type	Total
Property Taxes – Current	$184,436
Other	-
Due from Other Government Units	-
Total	$184,436

NOTE D – CAPITAL ASSETS:

A summary of the capital assets of the Governmental Activities is as follows:

	Balance at January 1, 2018	Additions	Disposals	Balance at December 31, 2018
GOVERNMENTAL ACTIVITIES:				
Assets Not Being Depreciated:				
Land	$325,000	$-	$-	$325,000
Construction in progress	-	-	-	-
Total Assets Not Being Depreciated	325,000	-	-	325,000
Assets Being Depreciated:				
Infrastructure	2,652,324	31,560	-	2,683,884
Equipment	52,947	-	-	52,947
Total Assets Being Depreciated	2,705,271	31,560	-	2,736,831
Less Accumulated Depreciation:				
Infrastructure	(223,912)	(67,127)	-	(291,039)
Equipment	(27,168)	(10,589)	-	(37,757)
Total Accumulated Depreciation	(251,080)	(77,716)	-	(328,796)
Governmental Activities – Capital Assets, Net	$2,779,191	($46,156)	$-	$2,733,035

As of December 31, 2018, depreciation expense totaled $77,717.

NOTE E – LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the Authority at December 31, 2018:

	Balance 01/01/2018	Additions	Deductions	Balance 12/31/18	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
None	$-	$-	$-	$-	$-
TOTAL	$-	$-	$-	$-	$-

NOTE F – LEASES AND EASEMENTS:

The Authority has entered into various lease and easement agreements for land use throughout Marquette County for the Iron Ore Heritage Trail to either cross or occupy the properties. These agreements range from one year to perpetuity with lease costs ranging from $0 to $1 per year. All lease agreements have an automatic renewal. The maximum amount of lease payments per year is $3.

NOTE G – DEFERRED INFLOWS OF RESOURCES:

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not

NOTE G – DEFERRED INFLOWS OF RESOURCES (Continued):

be recognized as revenue until then. Deferred inflows of resources in the fund and government-wide financial statements at December 31, 2018 are comprised of tax revenues levied for a subsequent period of $329,674.

NOTE H – PROPERTY TAXES:

The Authority's property tax is levied on July 1st and December 1st on the taxable valuation of property (as defined by State statutes) located in the Authority's District as of the preceding December 31st.

Although the Authority's 2017 ad valorem tax is levied and collectible on July 1st and December 1st, 2017, it is the Authority's policy to recognize revenue from the current tax levy in the following year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60) days.

The 2017 taxable valuation of the Authority totaled $1,648,373,630 on which ad valorem taxes levied consisted of 0.2000 mills for the Local Government Unit operation purposes. These amounts are recognized in the financial statements as taxes levied for a subsequent period.

NOTE I – FUND BALANCES – GOVERNMENTAL FUNDS:

As of December 31, 2018, fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board of Directors is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Directors.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Authority's adopted policy, only the Administrator or the Board of Directors may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of December 31, 2018, fund balances are composed of the following:

	General Fund
Non-spendable	$-
Restricted	-
Committed:	
Local Match - Carp River/Pine Hill Pond Project	64,097
Assigned	-
Unassigned	329,843
Total fund balances	$393,580

NOTE I – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Administrator through amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

NOTE J – TAX ABATEMENTS:

For financial reporting purposes, GASB Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. The Statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and about tax abatement agreements entered into by other governments that reduce the reporting government's tax revenues.

The Authority receives reduced property tax revenues as a result of Tax Increment Financing exemptions and Brownfield exemptions granted by the Cities and/or Townships within its district in accordance with State laws. These tax exemptions are intended to promote economic development and/or growth within the issuing government's jurisdiction.

For purposes of disclosure under GASB 77, the Authority discloses tax abatements by issuing government and type greater than $1,000 in the aggregate. Information relevant to tax abatements within the Authority for the year ended December 31, 2018 are as follows:

Issuing Government	Type of Tax Abatement Agreement	Tax Abated	Gross Amount Abated in Fiscal Year
City of Marquette	TIFs	Property Taxes	$5,857
City of Marquette	Brownfields	Property Taxes	5,384
			$11,241

For the fiscal year ended December 31, 2018, there were no significant tax abatements made by the Authority.

NOTE K – SINGLE AUDIT:

The Authority's audited financial statements report a total of $0 in Federal expenditures. As this amount is less than the single audit threshold of $750,000, the Authority is not required to have a single audit in accordance with Uniform Guidance for the fiscal year ended December 31, 2018.

NOTE L – NEW GASB STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Authority in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Authority.

Recently Issued and Adopted Accounting Pronouncements
None.

Other Recently Issued Accounting Pronouncements
In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 provides improved accounting and financial reporting by state and local governments for postemployment benefits other than pension. It also provides information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. This statement is effective for periods beginning after June 15, 2017. The Authority does not have other postemployment benefits that meet the criteria for GASB 75; therefore, GASB 75 is not applicable to the Authority.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. GASB 85 provides guidance on a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Some of the items specifically addressed relate to the following: 1) Measuring certain money market investments and participating interest-earning investment contracts at amortized cost 2) Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus 3) Recognizing on-behalf payments for pension or OPEB in employer financial statements 4) Presenting payment-related measures in required supplementary information for purposes or reporting by OPEB plans and employers that provide OPEB 5) Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plan. This statement is effective for periods beginning after June 15, 2017. The Authority does not have pension and OPEB plans that meet the criteria for GASB 85; therefore, GASB 85 is not applicable to the Authority.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB 81 provides recognition and measurement guidance when a government is the beneficiary of an

NOTE L – NEW GASB STANDARDS (Continued):

irrevocable split-interest agreement. The additional criteria requires governments that receive irrevocable split-interest agreement resources to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government is also required to recognize revenue when resources become applicable to the reporting period. This statement is effective for periods beginning after December 15, 2016. The Authority does not have any irrevocable split-interest agreements that meet the criteria for GASB 81; therefore, GASB 81 is not applicable to the Authority.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. GASB 86 provides improved consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for periods beginning after June 15, 2017. The Authority does not have any debt extinguishment issues that meet the criteria for GASB 86; therefore, GASB 86 is not applicable to the Authority.

NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Authority in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Authority.

<u>GASB 83: Certain Asset Retirement Obligations</u>
Effective for fiscal years beginning after June 15, 2018 (Authority's fiscal year 2019)

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. A deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This current value of a government's AROs are required to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays.

The statement also gives guidance on situations in which a government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports it's ARO in accordance with the

NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS (Continued):

guidance of another recognized accounting standards setter. The government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

<u>GASB 84: Fiduciary Activities</u>
Effective for fiscal years beginning after December 15, 2018 (Authority's fiscal year 2019)

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement identifies four types of fiduciary funds that should be reported, as applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

<u>GASB 87: Leases</u>
Effective for fiscal years beginning after December 15, 2019 (Authority's fiscal year 2020)

This Statement increases the usefulness of governments' 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 on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. 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 governments' leasing activities.

<u>GASB 88: Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</u>
Effective for fiscal years beginning after June 15, 2018 (Authority's fiscal year 2019)

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS (Continued):

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

<u>GASB 89: Accounting for Interest Cost incurred before the end of a Construction Period</u>
Effective for fiscal years beginning after December 15, 2019 (Authority's fiscal year 2020)

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that was previously accounted for in accordance with the requirements of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statement prepared using the economic resources measurement focus.

<u>GASB 90: Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61</u>
Effective for fiscal years beginning after December 15, 2018 (Authority's fiscal year 2019)

This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. If defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority interest in a legally separate organization results in a government being financially accountable for a legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

REQUIRED SUPPLEMENTARY INFORMATION

Iron Ore Heritage Recreation Authority

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the year ended December 31, 2018

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	$ 315,042	$ 309,951	$ 310,053	$ 102
Federal sources	-	-	-	-
State sources	-	42,160	40,760	(1,400)
Local sources	-	8,588	11,184	2,596
Interest earned	-	544	592	48
Other revenues	-	-	-	-
TOTAL REVENUES	315,042	361,243	362,589	1,346
EXPENDITURES:				
Recreation and culture	21,935	210,942	194,413	16,529
TOTAL EXPENDITURES	21,935	210,942	194,413	16,529
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	293,107	150,301	168,176	17,875
Fund balance, beginning of year	225,404	225,404	225,404	-
FUND BALANCE, END OF YEAR	$ 518,511	$ 375,705	$ 393,580	$ 17,875

OTHER FINANCIAL INFORMATION

Iron Ore Heritage Recreation Authority

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the year ended December 31, 2018

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Property Taxes:			
Taxes	$ 309,951	$ 310,053	$ 102
Total Property Taxes	309,951	310,053	102
Federal Sources:			
Federal grants	-	-	-
Total Federal Sources	-	-	-
State Sources:			
State grants	42,160	40,760	(1,400)
Total State Sources	42,160	40,760	(1,400)
Local Sources:			
Contributions from local units	-	-	-
Contributions from others	8,588	11,184	2,596
Total Local Sources	8,588	11,184	2,596
Interest Earned:			
Interest	544	592	48
Total Interest Earned	544	592	48
Other Revenues:			
Reimbursements	-	-	-
Miscellaneous	-	-	-
Total Other Revenues	-	-	-
TOTAL REVENUES	361,243	362,589	1,346
EXPENDITURES:			
RECREATION AND CULTURE:			
Personnel services	73,541	73,547	(6)
Supplies	4,766	1,892	2,874
Other services and charges	8,653	16,150	(7,497)
Capital outlay	123,982	102,824	21,158
TOTAL RECREATION AND CULTURE	210,942	194,413	16,529
TOTAL EXPENDITURES	210,942	194,413	16,529
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	150,301	168,176	17,875
Fund balance, beginning of year	225,404	225,404	-
FUND BALANCE, END OF YEAR	$ 375,705	$ 393,580	$ 17,875

COMPLIANCE SECTION

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

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*

To the Board of Directors of the
Iron Ore Heritage Recreation Authority
P.O. Box 763
Marquette, Michigan 49855

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, each major fund, and the aggregate remaining fund information of the Iron Ore Heritage Recreation Authority (the Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated DATE.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies listed as items 2018-001 and 2018-002.

To the Board of Directors of the
Iron Ore Heritage Recreation Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

Iron Ore Heritage Recreation Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Authority'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.

Anderson, Tackman & Company, PLC
Certified Public Accountants

DATE

COMMUNICATIONS SECTION

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

Iron Ore Heritage Recreation Authority
Report to Management
For the Year Ended December 31, 2018

To the Board of Directors and Management of the
Iron Ore Heritage Recreation Authority
P.O. Box 763
Marquette, MI 49855

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iron Ore Heritage Recreation Authority (the Authority) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in internal control to be significant deficiencies:

SIGNIFICANT DEFICIENCIES:

2018-001 – FINANCIAL STATEMENTS AND FOOTNOTES PREPARATION (REPEAT)
Condition/Criteria: Statement on Auditing Standards #115 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes

required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Cause of Condition: The Authority does not have adequate staffing to prepare all the information included in the annual financial statements.

Effect: We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with generally accepted accounting principles.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
  - Board Chairman
- Corrective Action Planned:
  - See separate corrective action plan
- Anticipated Date of Completion:
  - Not applicable

2018-002 – SEGREGATION OF DUTIES (REPEAT)

Condition/Criteria: Internal controls rely on the principle of checks and balances and an individual should not have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping. The Administrator has responsibility for more than one of the three components of internal control.

Cause of Condition: The size of the organization's accounting staff precludes certain internal design controls that would be preferred if the office staff was large enough to provide optimum segregation of duties.

Effect: The lack of segregation of duties increases the chance that misstatements, whether caused by error or fraud, could occur and not be prevented or detected on a timely basis by employees in the course of performing their assigned duties.

Recommendation: Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
  - Board Chairman
- Corrective Action Planned:
  - See separate corrective action plan
- Anticipated Date of Completion:
  - Not applicable

To the Board of Directors and Management of the
Iron Ore Heritage Recreation Authority

Iron Ore Heritage Recreation Authority's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

DATE

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

Iron Ore Heritage Recreation Authority
Communication with Those Charged with Governance
For the Year Ended December 31, 2018

DATE

To the Board of Directors of the
Iron Ore Heritage Recreation Authority
P.O. Box 763
Marquette, MI 49855

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iron Ore Heritage Authority (the Authority) for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 30, 2019. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in the footnotes to the financial statements. Newly adopted GASB standards are disclosed in the notes to the financial statements. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of the accumulated depreciation is based on historical costs and useful lives of the asset. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

> Management's estimate of the property taxes levied for a subsequent period is based on taxable values and millage rates. We evaluated the key factors and assumptions used to develop the current years property taxes levied for a subsequent period in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March DATE.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Directors of the
Iron Ore Heritage Recreation Authority

Our consideration of internal control was for the limited purpose described in a separate letter 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 certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies listed as item 2018-001 and 2018-002.

As part of obtaining reasonable assurance about whether the Authority'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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matters

We applied certain limited procedures to General Fund – Budgetary Comparison Schedule, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Very truly yours,

Anderson, Tackman & Company, PLC
Certified Public Accountants

Corrective Action Plan
For the Year Ended December 31, 2018

DATE

In response to the findings disclosed in the audited financial statements for the year ended December 31, 2018:

2018-001 ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES (REPEAT)
Corrective Action Plan:
The Authority has evaluated the possibility of preparing the financial statements and has concluded that currently the Authority staff does not have sufficient time and/or personnel available to prepare the financial statements and footnotes. Management is involved with preparing the Management's Discussion and Analysis. Additionally, management reviews and approves the financial statements prepared by Anderson, Tackman & Company, PLC prior to issuance and submission to the Michigan Department of Treasury. We do not foresee the need for any changes to this procedure at this time.

2018-002 SEGREGATION OF DUTIES (REPEAT)
Corrective Action Plan:
The Authority is aware of this deficiency and believes smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency. The Authority's Board of Directors closely monitors all payments and reviews the financial statements on a monthly basis. We do not foresee the need for any changes to this procedure at this time.