Kalkaska County, Michigan

Year Ended December 31, 2016

Financial Statements and Supplementary Information

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KALKASKA COUNTY, MICHIGAN

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Rehmann Robson

107 S. Cass St.
Suite A
Traverse City, MI 49684
Ph: 231.946.3230
Fx: 231.946.3955
rehmann.com

INDEPENDENT AUDITORS' REPORT

June 28, 2017

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan
Kalkaska, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kalkaska County Road Commission discretely presented component unit, which represents 100 percent of the total assets, net position and revenue of the discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kalkaska County, Michigan as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension and other postemployment benefit plans 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 County's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 June 28, 2017, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Kalkaska County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $12,614,541 (net position). Of this amount, $4,112,089 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors. The County's total net position increased by $365,844.

- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of $6,307,946, an increase of $195,475 in comparison with the prior year. Approximately 27.0 percent of total governmental fund balance or $1,703,931 is unassigned fund balance.

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was $1,920,438 or 29.1 percent of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information (including this discussion and analysis) and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, and recreation and culture. The business-type activities of the County include delinquent tax collection and administration, and the Sportsplex.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate Road Commission, for which the County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Management's Discussion and Analysis

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Housing Fund, and Commission on Aging, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund and each special revenue fund. Budgetary comparison statements have been provided for each of the major funds to demonstrate compliance with this budget.

Proprietary Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the Delinquent Tax funds and Sportsplex activities. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County had no internal service funds at December 31, 2016.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Delinquent Tax and Sportsplex funds, each of which is considered to be major funds of the County.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MERS pension and other postemployment benefits plans immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the required supplementary information.

Management's Discussion and Analysis

Government-Wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $12,614,541 at the close of the most recent fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	$ 9,065,690	$ 8,688,309	$ 6,277,685	$ 5,683,359	$15,343,375	$14,371,668
Capital assets, net	2,439,965	2,439,564	4,313,549	4,458,562	6,753,514	6,898,126
Total assets	11,505,655	11,127,873	10,591,234	10,141,921	22,096,889	21,269,794
Deferred outflows of resources	1,671,846	1,060,108	34,120	21,635	1,705,966	1,081,743
Long-term liabilities	214,308	230,003	1,920,000	2,320,000	2,134,308	2,550,003
Other liabilities	6,865,522	5,597,410	170,768	139,828	7,036,290	5,737,238
Total liabilities	7,079,830	5,827,413	2,090,768	2,459,828	9,170,598	8,287,241
Deferred inflows of resources	1,293,142	1,097,831	724,574	717,768	2,017,716	1,815,599
Net position:						
Net investment in capital assets	2,439,965	2,439,564	2,393,549	2,138,562	4,833,514	4,578,126
Restricted	3,668,938	3,477,094	-	-	3,668,938	3,477,094
Unrestricted (deficit)	(1,304,374)	(653,921)	5,416,463	4,847,398	4,112,089	4,193,477
Total net position	$ 4,804,529	$ 5,262,737	$ 7,810,012	$ 6,985,960	$12,614,541	$12,248,697

A portion of the County's net position, $4,833,514 (38.3 percent), reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position of $3,668,938 (29.1 percent) represents resources that are subject to external restrictions on how they may be used. The County may use the remaining balance of unrestricted net position of $4,112,089 (32.6 percent) to meet its ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances, both for the government as a whole, and for its separate governmental and business-type activities. It should be noted however, that the unrestricted portion of governmental activities ended in a deficit as of December 31, 2016. The main reason for this deficit is the reporting of the net pension liability and related deferred items.

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	$ 2,850,810	$ 3,114,013	$ 874,397	$ 771,569	$ 3,725,207	$ 3,885,582
Operating grants	1,209,658	1,314,366	-	-	1,209,658	1,314,366
Capital grants	15,904	3,344	-	-	15,904	3,344
General revenues:						
Property taxes	5,466,517	5,424,496	729,033	732,415	6,195,550	6,156,911
Convention facility tax	65,813	71,494	-	-	65,813	71,494
State revenue sharing	337,989	26,451	-	-	337,989	26,451
Unrestricted investment earnings	23,363	31,801	9,439	4,170	32,802	35,971
Other revenue	160,117	154,143	-	-	160,117	154,143
Total revenues	10,130,171	10,140,108	1,612,869	1,508,154	11,743,040	11,648,262
Expenses and transfers:						
Legislative	292,848	282,791	-	-	292,848	282,791
Judicial	1,266,965	1,323,931	-	-	1,266,965	1,323,931
General government	2,324,108	2,022,921	-	-	2,324,108	2,022,921
Public safety	4,014,972	3,683,892	-	-	4,014,972	3,683,892
Public works	265,457	334,712	-	-	265,457	334,712
Health & welfare	1,733,375	1,353,865	-	-	1,733,375	1,353,865
Community & economic development	208,476	246,905	-	-	208,476	246,905
Recreation & culture	492,594	409,209	-	-	492,594	409,209
Tax collection	-	-	75,883	282,699	75,883	282,699
Sportsplex	-	-	702,518	705,724	702,518	705,724
Total expenses	10,598,795	9,658,226	778,401	988,423	11,377,196	10,646,649
Change in net position before transfers	(468,624)	481,882	834,468	519,731	365,844	1,001,613
Transfers	10,416	-	(10,416)	-	-	-
Change in net position	(458,208)	481,882	824,052	519,731	365,844	1,001,613
Net position:						
Beginning of year	5,262,737	8,541,331	6,985,960	6,542,973	12,248,697	15,084,304
Restatement for: implementation of GASB 68	-	(3,760,476)	-	(76,744)	-	(3,837,220)
End of year	$ 4,804,529	$ 5,262,737	$ 7,810,012	$ 6,985,960	$12,614,541	$12,248,697

The County's net position increased by $365,844 during the current fiscal year. Business-type activities reported an increase in net position of $824,052, offset by a decrease in governmental activities of $458,208.

Governmental Activities. Governmental activities decreased the County's net position by $458,208. Key elements of this decrease are as follows:

State revenue sharing increased by $311,538 over the prior year level. The primary reason for this increase was that this is the first year that the County is receiving a full year of state shared revenue. In the prior year the County transferred amounts from its revenue sharing reserve fund, reported in the financial statements as an interfund transfer, in lieu of receiving revenue sharing from the State.

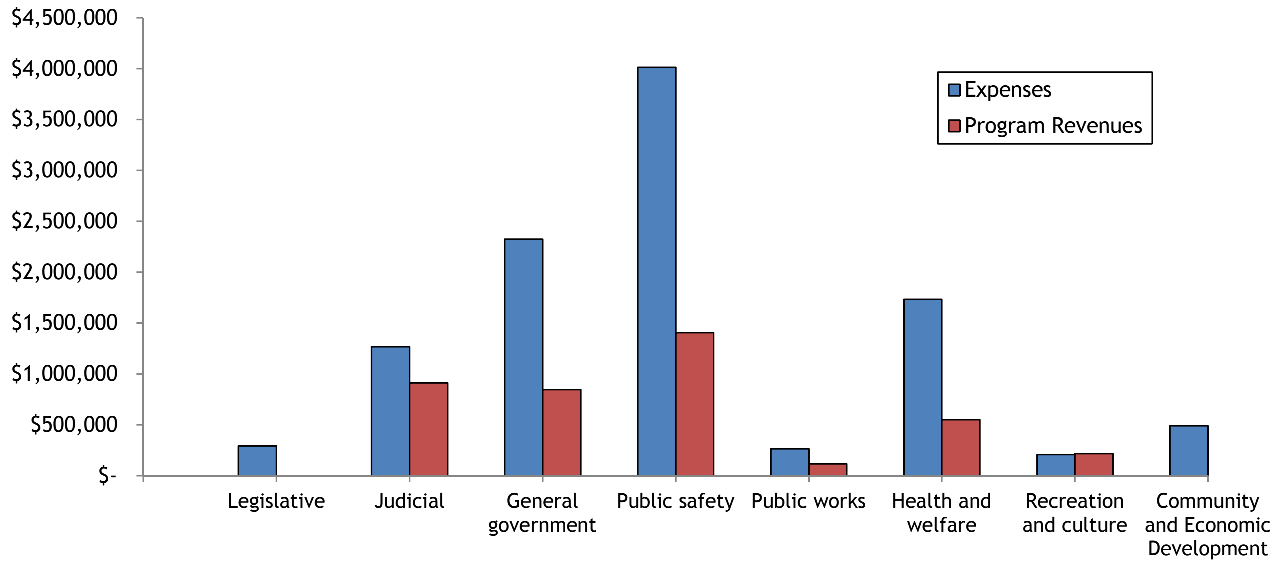
Expenses related to general government activities increased by $301,187 or 14.9 percent from 2015. The primary reasons for this increase were increased election costs related to the presidential election, non-capital contracted services related to significant upgrades to information technology, and costs related to a record retention project.

Expenses related to public works decreased by $69,255 or 20.7 percent from amounts reported in the prior year. The primary reason for this decrease was a decrease in non-capital contractual services and non-capital equipment purchased in 2015 related to the recycling facility building.

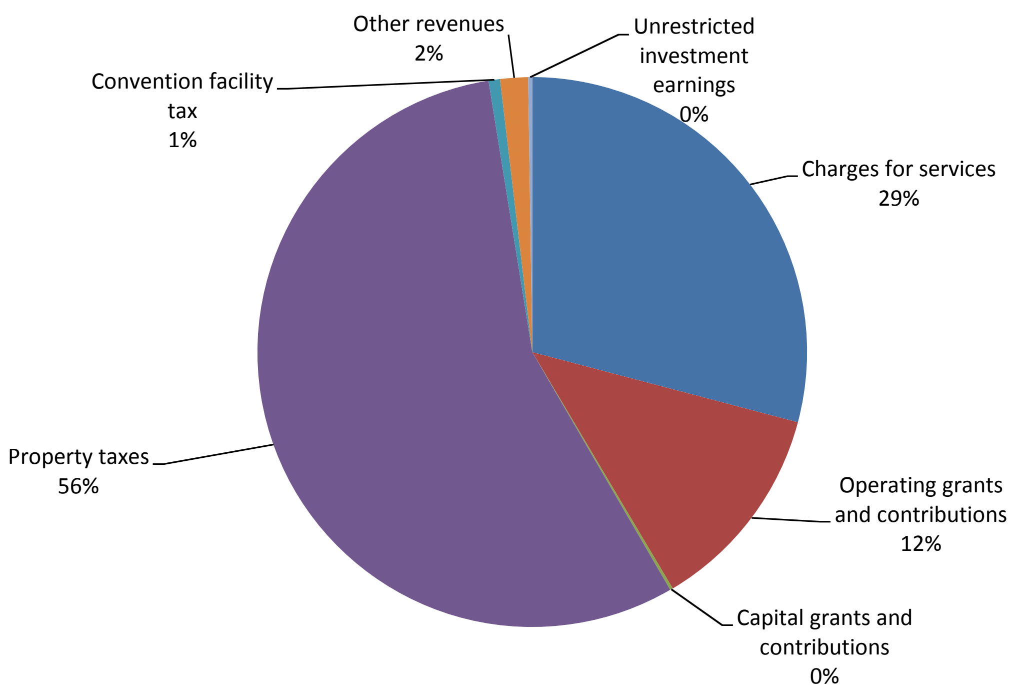
Expenses related to health and welfare activities increased by $379,510 or 28.0 percent from 2015. The primary reason for this increase was the recognition of child care costs related to state chargebacks for foster children held in state facilities that are the fiscal responsibility of the County.

Expenses related to recreation and culture increased by $83,385 or 20.4 percent from amounts reported in the prior year. The primary reason for this increase was significant repair and maintenance costs related to the Log Lake Campground and moving and temporary storage expenses related to the replacement of the carpeting at the Library.

Expenses and Program Revenues - Governmental Activities



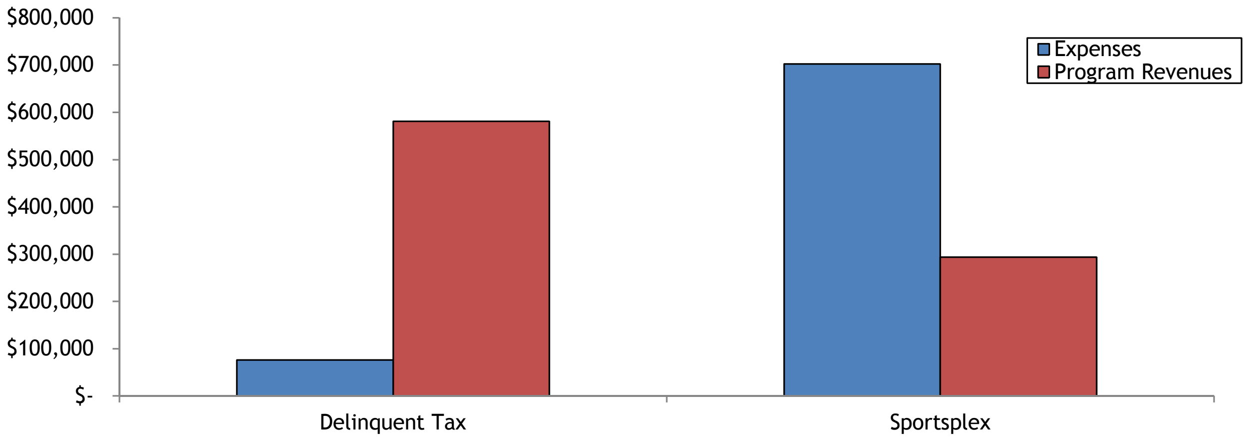
Revenues by Source - Governmental Activities



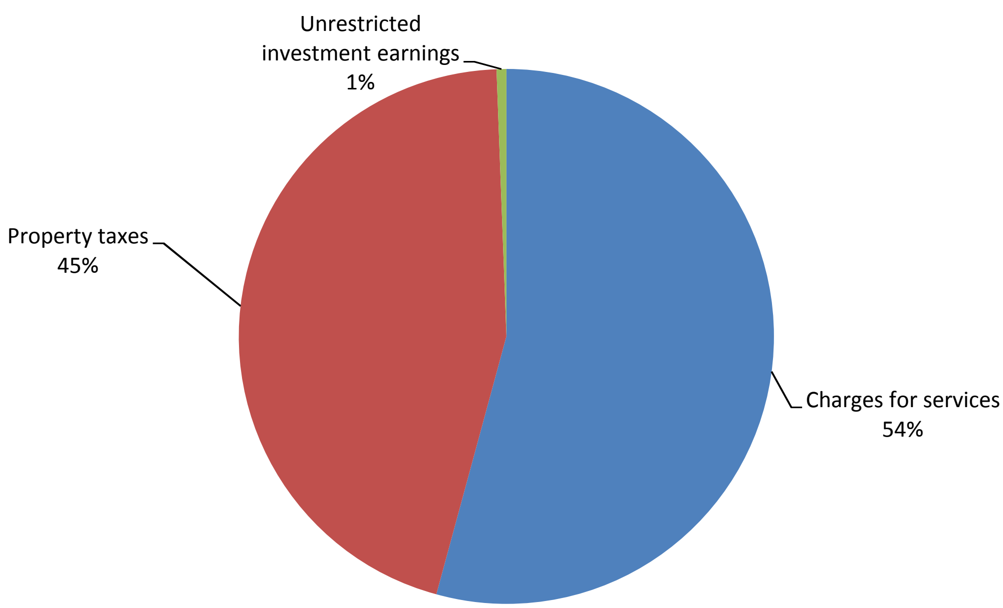
Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the County's net position by $824,052. This increase is primarily due to receipt of interest and penalties on delinquent taxes.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of $6,307,946, an increase of $195,475 in comparison with the prior year. Of this amount, 27.0 percent ($1,703,931) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it is classified as one of the following: A) Nonspendable (in nonspendable form) ($184,228); B) Restricted for use per various external agreements ($2,865,471); C) is committed through formal action of the County Board ($1,219,316); or D) is assigned for specific purposes through informal action of the County Board ($335,000).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,920,438 while total fund balance amounted to $2,717,388. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29.1 percent of total General Fund expenditures, while total fund balance represents 41.1 percent of that same amount.

The fund balance of the County's General Fund increased by $120,365 during the current fiscal year. This was due to sound budgeting and several areas noted within General Fund Budgetary Highlights below that were underspent.

Proprietary Funds. The County's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds at December 31, 2016 was $5,416,463, with the Delinquent Tax and Sportsplex Fund reporting unrestricted net position of $5,135,872 and $280,591, respectively. The net position of the Delinquent Tax and Sportsplex Funds increased $503,440 and $320,612 respectively. Delinquent tax funds collect interest and penalties on taxes not paid. These fees are over and above the costs to collect such taxes. The Sportsplex operates on both a tax millage and user fees. Repair and maintenance costs are currently minimal, but the County strives to set aside funds for future needs.

General Fund Budgetary Highlights

The General Fund budget was created to ensure that departments were properly funded to address worse case situations.

- General Fund revenues were $58,671 or 0.9 percent more than the final amended budget.
- Actual expenditures for the year were $488,035 or 6.9 percent less than the final amended budget.
- The amended budget for revenues and expenditures increased from the originally adopted budget by 1.1 and 6.7 percent, respectively.

Capital Asset and Debt Administration

Capital Assets. The County's capital assets for its governmental and business-type activities as of December 31, 2016 amounted to $6,753,514 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements and machinery and equipment. The total decrease of $144,612 in the County's investment in capital assets for the current fiscal year was 2.1 percent.

Major capital asset events during the current fiscal year included:

- Several vehicles were purchased for a total cost of $80,458. These purchases included two new police interceptors.

- The Recycling Center was placed in service in the early part of 2016. Most of the cost related to this asset was paid in the prior year and included in the beginning balance of construction in progress. The total cost of the building construction was $220,532.

- The carpeting was replaced at the Library for a cost of $12,387.

- The roof was replaced at the Jail for a cost of $12,842.

- Several technology upgrades were made to servers, telephones and audio/video for a cost of $94,438.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	$ 452,521	$ 452,521	$ -	$ -	$ 452,521	$ 452,521
Construction in progress	-	143,729	-	-	-	143,729
Buildings	1,346,601	1,220,132	4,291,619	4,426,659	5,638,220	5,646,791
Land improvements	87,483	97,608	-	-	87,483	97,608
Machinery and equipment	553,360	525,574	21,930	31,903	575,290	557,477
Total capital assets, net	$ 2,439,965	$ 2,439,564	$ 4,313,549	$ 4,458,562	$ 6,753,514	$ 6,898,126

Additional information on the County's capital assets can be found in the notes to financial statements of this report.

Long-term Debt. At the end of the current fiscal year, the County had total long-term debt outstanding of $2,134,308.

	Installment and Other Debt					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
2010 refunding bonds	$ -	$ -	$ 1,920,000	$ 2,320,000	$ 1,920,000	$ 2,320,000
Compensated absences	214,308	230,003	-	-	214,308	230,003
Total long-term debt	$ 214,308	$ 230,003	$ 1,920,000	$ 2,320,000	$ 2,134,308	$ 2,550,003

The County's total long-term debt decreased by $415,695 (16.3 percent) during the current fiscal year. The net decrease was mainly attributable to annual principal payments.

Additional information on the County's long-term debt can be found in the notes to financial statements of this report.

Management's Discussion and Analysis

Economic Factors and Next Year's Budget and Rates

- The County has been seeing an increase in building maintenance and recognizes the need to allocate future monies available for repairs and maintenance.

- The County has seen significant increases in required payments for retiree retirement and health care costs. The County has budgeted for the full impact retirement payments as calculated by the state retirement system in efforts to reduce the unfunded liabilities.

- There was a significant increase in child care costs for state ward foster children during 2016.

The County considered these factors in preparing the County's budget for the 2017 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in Kalkaska County, Michigan's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Kalkaska County Clerk, 605 N Birch Street, Kalkaska, MI 49646.

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BASIC FINANCIAL STATEMENTS

KALKASKA COUNTY, MICHIGAN

Statement of Net Position

December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Assets				
Cash and cash equivalents	$ 5,877,616	$ 4,536,853	$ 10,414,469	$ 1,344,294
Receivables, net	2,756,328	1,716,049	4,472,377	1,290,382
Inventories	-	2,009	2,009	347,049
Prepaids	184,228	3,085	187,313	66,755
Net other postemployment benefits asset	247,518	19,689	267,207	-
Capital assets not being depreciated	452,521	-	452,521	5,223,018
Capital assets being depreciated, net	1,987,444	4,313,549	6,300,993	15,565,399
Total assets	11,505,655	10,591,234	22,096,889	23,836,897
Deferred outflows of resources				
Deferred pension amounts	1,671,846	34,120	1,705,966	550,160
Liabilities				
Payables and accrued liabilities	437,909	39,593	477,502	315,943
Long-term liabilities:				
Due within one year	42,862	450,000	492,862	143,341
Due in more than one year	171,446	1,470,000	1,641,446	529,163
Net pension liability	6,427,613	131,175	6,558,788	5,787,089
Net other postemployment benefits obligation	-	-	-	524,457
Total liabilities	7,079,830	2,090,768	9,170,598	7,299,993
Deferred inflows of resources				
Taxes levied for a subsequent period	1,293,142	724,574	2,017,716	707,000
Net position				
Net investment in capital assets	2,439,965	2,393,549	4,833,514	20,152,594
Restricted for:				
Public safety	1,038,151	-	1,038,151	-
Health and welfare	1,242,709	-	1,242,709	-
Community and economic development	797,227	-	797,227	-
Recreation and culture	354,237	-	354,237	-
Child support enforcement	71,527	-	71,527	-
Other state mandated programs	165,087	-	165,087	-
Unrestricted (deficit)	(1,304,374)	5,416,463	4,112,089	(3,772,530)
Total net position	$ 4,804,529	$ 7,810,012	$ 12,614,541	$ 16,380,064

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

KALKASKA COUNTY, MICHIGAN

Statement of Activities
For the Year Ended December 31, 2016

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government					
Governmental activities:					
Legislative	$ 292,848	$ -	$ -	$ -	$ (292,848)
Judicial	1,266,965	607,944	305,019	-	(354,002)
General government	2,324,108	519,208	328,109	-	(1,476,791)
Public safety	4,014,972	999,145	407,148	-	(2,608,679)
Public works	265,457	115,470	3,270	-	(146,717)
Health and welfare	1,733,375	404,388	147,537	-	(1,181,450)
Community and economic development	208,476	22,439	-	-	(186,037)
Recreation and culture	492,594	182,216	18,575	15,904	(275,899)
Total governmental activities	10,598,795	2,850,810	1,209,658	15,904	(6,522,423)
Business-type activities:					
Tax collection	75,883	580,991	-	-	505,108
Sportsplex	702,518	293,406	-	-	(409,112)
Total business-type activities	778,401	874,397	-	-	95,996
Total primary government	$ 11,377,196	$ 3,725,207	$ 1,209,658	$ 15,904	$ (6,426,427)
Component unit					
Road Commission	$ 5,539,087	$ 84,001	$ 3,496,686	$ 2,112,068	$ 153,668

continued...

KALKASKA COUNTY, MICHIGAN

Statement of Activities
For the Year Ended December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Changes in net position				
Net revenue (expense)	$ (6,522,423)	$ 95,996	$ (6,426,427)	$ 153,668
General revenues:				
Property taxes	5,466,517	729,033	6,195,550	695,595
State liquor tax distribution	65,813	-	65,813	-
State revenue sharing	337,989	-	337,989	-
Unrestricted investment earnings	23,363	9,439	32,802	-
Gain on sale of capital assets	-	-	-	18,580
Other revenue	160,117	-	160,117	-
Transfers - internal activities	10,416	(10,416)	-	-
Total general revenues and transfers	6,064,215	728,056	6,792,271	714,175
Change in net position	(458,208)	824,052	365,844	867,843
Net position beginning of year	5,262,737	6,985,960	12,248,697	15,512,221
Net position, end of year	$ 4,804,529	$ 7,810,012	$ 12,614,541	$ 16,380,064

concluded

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

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KALKASKA COUNTY, MICHIGAN

Balance Sheet

Governmental Funds
December 31, 2016

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 2,292,534	$ 18,307	$ 1,193,673	$ 2,462,857	$ 5,967,371
Receivables:					
Accounts	3,056	-	2,174	-	5,230
Taxes	432,713	-	737,084	552,098	1,721,895
Loans	-	779,175	-	-	779,175
Due from other governments	53,317	-	800	195,911	250,028
Prepaids	158,394	-	8,752	17,082	184,228
Total assets	$ 2,940,014	$ 797,482	$ 1,942,483	$ 3,227,948	$ 8,907,927
Liabilities					
Negative equity in pooled cash	$ -	$ -	$ -	$ 89,755	$ 89,755
Accounts payable	161,254	255	2,425	68,850	232,784
Accrued liabilities	61,372	-	7,088	18,904	87,364
Due to other governments	-	-	-	117,761	117,761
Total liabilities	222,626	255	9,513	295,270	527,664
Deferred inflows of resources					
Taxes levied for a subsequent period	-	-	739,361	553,781	1,293,142
Unavailable revenue - loans receivable	-	779,175	-	-	779,175
Total deferred inflows of resources	-	779,175	739,361	553,781	2,072,317
Fund balances					
Nonspendable	158,394	-	8,752	17,082	184,228
Restricted	-	18,052	1,184,857	1,662,562	2,865,471
Committed	303,556	-	-	915,760	1,219,316
Assigned	335,000	-	-	-	335,000
Unassigned (deficit)	1,920,438	-	-	(216,507)	1,703,931
Total fund balances	2,717,388	18,052	1,193,609	2,378,897	6,307,946
Total liabilities, deferred inflows of resources and fund balances	$ 2,940,014	$ 797,482	$ 1,942,483	$ 3,227,948	$ 8,907,927

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

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2016

Fund balances - total governmental funds	$ 6,307,946
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 fund statement.	
Capital assets not being depreciated	452,521
Capital assets being depreciated, net	1,987,444
Certain assets do not represent current financial resources, and therefore are not reported in the funds.	
Net other postemployment benefits asset	247,518
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.	
Deferred loans receivable	779,175
Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.	
Compensated absences	(214,308)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period, or do not represent current financial resources, and therefore are not reported in the funds.	
Net pension liability	(6,427,613)
Deferred outflows related to the net pension liability	1,671,846
Net position of governmental activities	$ 4,804,529

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 4,364,711	$ -	$ 732,615	$ 369,191	$ 5,466,517
Licenses and permits	44,533	-	-	251,703	296,236
Intergovernmental:					
Federal	62,703	-	1,608	197,174	261,485
State	1,010,179	-	-	316,610	1,326,789
Local	-	-	-	22,399	22,399
Charges for services	1,063,539	-	378,079	700,550	2,142,168
Fines and forfeitures	450	-	-	168,003	168,453
Interest	11,514	22	1,347	9,158	22,041
Rents	120,730	-	-	49,655	170,385
Donations	-	-	-	15,904	15,904
Other	55,569	20,570	-	86,765	162,904
Total revenues	6,733,928	20,592	1,113,649	2,187,112	10,055,281
Expenditures					
Current:					
Legislative	241,039	-	-	-	241,039
Judicial	858,440	-	-	314,713	1,173,153
General government	2,202,989	-	-	-	2,202,989
Public safety	2,494,788	-	-	959,775	3,454,563
Public works	104,698	-	-	235,933	340,631
Health and welfare	264,939	-	908,471	447,167	1,620,577
Community and economic development	180,144	10,935	-	-	191,079
Recreation and culture	-	-	-	457,302	457,302
Other functions	263,779	-	-	-	263,779
Total expenditures	6,610,816	10,935	908,471	2,414,890	9,945,112
Revenues over (under) expenditures	123,112	9,657	205,178	(227,778)	110,169
Other financing sources (uses)					
Transfers in	95,995	-	-	173,632	269,627
Transfers out	(173,632)	-	-	(85,579)	(259,211)
Insurance recoveries	74,890	-	-	-	74,890
Total other financing sources (uses)	(2,747)	-	-	88,053	85,306
Net change in fund balances	120,365	9,657	205,178	(139,725)	195,475
Fund balances, beginning of year	2,597,023	8,395	988,431	2,518,622	6,112,471
Fund balances, end of year	$ 2,717,388	$ 18,052	$ 1,193,609	$ 2,378,897	$ 6,307,946

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

KALKASKA COUNTY, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds	$ 195,475
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 and reported as depreciation expense.	
Purchases of capital assets	302,461
Depreciation expense	(302,060)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following year.	
Change in deferred loans receivable	(25,754)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in the accrual for compensated absences	15,695
Change in the net pension liability and related deferred amounts	(636,895)
Change in the net other postemployment benefits asset	(7,130)
Change in net position of governmental activities	$ (458,208)

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 4,342,075	$ 4,342,075	$ 4,364,711	$ 22,636
Licenses and permits	44,550	47,050	44,533	(2,517)
Intergovernmental:				
Federal	60,000	69,447	62,703	(6,744)
State	986,033	1,011,292	1,010,179	(1,113)
Charges for services	993,474	1,002,208	1,063,539	61,331
Fines and forfeitures	-	-	450	450
Interest	700	2,700	11,514	8,814
Rents	123,915	123,915	120,730	(3,185)
Other	49,584	76,570	55,569	(21,001)
Total revenues	6,600,331	6,675,257	6,733,928	58,671
Expenditures				
Current:				
Legislative	227,326	252,823	241,039	(11,784)
Judicial	890,642	916,019	858,440	(57,579)
General government	2,013,107	2,277,253	2,202,989	(74,264)
Public safety	2,566,413	2,735,254	2,494,788	(240,466)
Public works	91,489	107,254	104,698	(2,556)
Health and welfare	266,283	267,382	264,939	(2,443)
Community and economic development	168,634	190,055	180,144	(9,911)
Other functions	429,792	352,810	263,779	(89,031)
Total expenditures	6,653,686	7,098,851	6,610,816	(488,035)
Revenues over (under) expenditures	(53,355)	(423,594)	123,112	546,706
Other financing sources (uses)				
Transfers in	131,565	178,484	95,995	(82,489)
Transfers out	(231,300)	(400,748)	(173,632)	227,116
Insurance recoveries	-	93,462	74,890	(18,572)
Total other financing sources (uses)	(99,735)	(128,802)	(2,747)	126,055
Net change in fund balance	(153,090)	(552,397)	120,365	672,762
Fund balance, beginning of year	2,597,023	2,597,023	2,597,023	-
Fund balance, end of year	$ 2,443,933	$ 2,044,626	$ 2,717,388	$ 672,762

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

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Housing Special Revenue Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest	$ -	$ -	$ 22	$ 22
Other	10,000	14,500	20,570	6,070
Total revenues	10,000	14,500	20,592	6,092
Expenditures				
Current:				
Community and economic development	1,000	9,800	10,935	1,135
Net change in fund balance	9,000	4,700	9,657	4,957
Fund balance, beginning of year	8,395	8,395	8,395	-
Fund balance, end of year	$ 17,395	$ 13,095	$ 18,052	$ 4,957

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Commission on Aging Special Revenue Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 809,527	$ 809,527	$ 732,615	$ (76,912)
Intergovernmental:				
Federal	-	-	1,608	1,608
Charges for services	375,619	375,619	378,079	2,460
Interest	-	-	1,347	1,347
Total revenues	1,185,146	1,185,146	1,113,649	(71,497)
Expenditures				
Current:				
Health and welfare	1,292,999	1,292,999	908,471	(384,528)
Net change in fund balance	(107,853)	(107,853)	205,178	313,031
Fund balance, beginning of year	988,431	988,431	988,431	-
Fund balance, end of year	$ 880,578	$ 880,578	$ 1,193,609	$ 313,031

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

KALKASKA COUNTY, MICHIGAN

Statement of Net Position
Proprietary Funds
December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 3,784,240	$ 752,613	$ 4,536,853
Receivables:			
Taxes	841,468	715,868	1,557,336
Due from other governments	25,666	-	25,666
Interest and administrative fees	133,047	-	133,047
Inventories	-	2,009	2,009
Prepaids	-	3,085	3,085
Total current assets	4,784,421	1,473,575	6,257,996
Noncurrent assets:			
Advances to other funds	351,484	-	351,484
Capital assets being depreciated, net	-	4,313,549	4,313,549
Net other postemployment benefits asset	-	19,689	19,689
Total noncurrent assets	351,484	4,333,238	4,684,722
Total assets	5,135,905	5,806,813	10,942,718
Deferred outflows of resources			
Deferred pension amounts	-	34,120	34,120
Liabilities			
Current liabilities:			
Accounts payable	33	20,124	20,157
Accrued liabilities	-	3,534	3,534
Accrued interest payable	-	15,902	15,902
Long-term debt, current portion	-	450,000	450,000
Total current liabilities	33	489,560	489,593
Noncurrent liabilities:			
Advances from other funds	-	351,484	351,484
Long-term debt, net of current portion	-	1,470,000	1,470,000
Net pension liability	-	131,175	131,175
Total noncurrent liabilities	-	1,952,659	1,952,659
Total liabilities	33	2,442,219	2,442,252
Deferred inflows of resources			
Taxes levied for a subsequent period	-	724,574	724,574
Net position			
Net investment in capital assets	-	2,393,549	2,393,549
Unrestricted	5,135,872	280,591	5,416,463
Total net position	$ 5,135,872	$ 2,674,140	$ 7,810,012

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Operating revenues			
Charges for services	$ 300,686	$ 293,406	$ 594,092
Interest and penalties	280,305	-	280,305
Total operating revenues	580,991	293,406	874,397
Operating expenses			
Salaries	-	182,618	182,618
Fringe benefits	-	58,301	58,301
Depreciation	-	145,013	145,013
Other operating expenses	75,883	250,039	325,922
Total operating expenses	75,883	635,971	711,854
Operating income (loss)	505,108	(342,565)	162,543
Nonoperating revenues (expenses)			
Property taxes	-	729,033	729,033
Interest revenue	8,748	691	9,439
Interest expense	-	(66,547)	(66,547)
Total nonoperating revenues (expenses)	8,748	663,177	671,925
Income before transfers	513,856	320,612	834,468
Transfers			
Transfers out	(10,416)	-	(10,416)
Change in net position	503,440	320,612	824,052
Net position, beginning of year	4,632,432	2,353,528	6,985,960
Net position, end of year	$ 5,135,872	$ 2,674,140	$ 7,810,012

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

KALKASKA COUNTY, MICHIGAN

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Cash flows from operating activities			
Receipts from customers and users	$ 468,480	$ 293,406	$ 761,886
Payments to vendors	(77,719)	(241,184)	(318,903)
Payments for personnel services	-	(241,344)	(241,344)
Net cash provided by (used in) operating activities	390,761	(189,122)	201,639
Cash flows from noncapital financing activities			
Local tax levy received	-	709,147	709,147
Cash flows from capital and related financing activities			
Payments on long-term advances	14,584	-	14,584
Principal paid on long-term debt	-	(400,000)	(400,000)
Interest paid on long-term debt	-	(69,235)	(69,235)
Net cash used in capital and related financing activities	14,584	(469,235)	(454,651)
Cash flows from investing activities			
Interest received	8,748	691	9,439
Net increase in cash and cash equivalents	414,093	51,481	465,574
Cash and cash equivalents, beginning of year	3,370,147	701,132	4,071,279
Cash and cash equivalents, end of year	$ 3,784,240	$ 752,613	$ 4,536,853

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KALKASKA COUNTY, MICHIGAN

Statement of Cash Flows

Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 505,108	$ (342,565)	$ 162,543
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	145,013	145,013
Change in operating assets, deferred outflows of resources and liabilities that provided (used) cash:			
Taxes receivable	(92,580)	-	(92,580)
Due from other governments	(25,666)	-	(25,666)
Interest receivable	5,735	-	5,735
Prepaids	-	(221)	(221)
Accounts payable	(1,836)	9,076	7,240
Accrued liabilities	-	906	906
Net pension liability and related deferred amounts	-	12,997	12,997
Net other postemployment benefits asset	-	(14,328)	(14,328)
Net cash provided by (used in) operating activities	$ 390,761	$ (189,122)	$ 201,639

concluded

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

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2016

	Agency Funds	Other Post-employment Benefits Trust
Assets		
Cash and cash equivalents	$ 223,997	$ 152,333
Investments:		
Money market funds	-	25,812
Equity mutual funds	-	68,511
Certificates of deposit	-	26,465
Prepaids	-	6,905
Total assets	$ 223,997	280,026
Liabilities		
Due to other governments	$ 47,779	-
Undistributed collections	170,368	-
Other liabilities	5,850	-
Total liabilities	$ 223,997	-
Net position restricted for		
Other postemployment benefits		$ 280,026

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

KALKASKA COUNTY, MICHIGAN

Statement of Changes in Fiduciary Net Position
Other Postemployment Benefits Trust
For the Year Ended December 31, 2016

Additions	
Employer contributions	$ 62,000
Retiree contributions	40,994
Investment gain	92
Total additions	103,086
Deductions	
Benefit payments	89,673
Change in net position	13,413
Net position, beginning of year	266,613
Net position, end of year	$ 280,026

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kalkaska County, Michigan (the "County") was organized in 1871 and covers an area of approximately 561 square miles with the County seat located in Kalkaska, Michigan. The County operates under an elected Board of Commissioners of seven members and provides services, assistance and care to its more than 16,500 residents, primarily from the operations of its general and special revenue funds. The County's services, assistance and care includes the (1) general county departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children, public and mental health recipients; (5) libraries; and (6) recreation.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the County is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and as such, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Blended Component Unit

Kalkaska County Building Authority – The Kalkaska County Building Authority is governed by a board which is appointed by the County Board of Commissioners. Its sole purpose is to finance and construct the County's public buildings. It is reported in the Capital Projects Funds and has a December 31 year-end. A separate report is not prepared for the Building Authority.

Discretely Presented Component Unit

Kalkaska County Road Commission (the "Road Commission") – The Road Commission is responsible for the maintenance and construction of the County road system. The County appoints the members of the Road Commission and is a direct beneficiary of the services provided. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. The Road Commission is audited individually and complete financial statements can be obtained from the Road Commission at 1049 Island Lake Rd., Kalkaska, Michigan 49646.

Jointly Governed Organizations

North Country Community Mental Health (the "Community Mental Health") - The County, in conjunction with the counties of Otsego, Emmet, Charlevoix and Cheboygan, has created the Community Mental Health. The Board of the Community Mental Health is composed of 12 members from each of the boards of the participating governments. The funding formula for the Community Mental Health operations is in accordance with an agreement approved by all of the member counties and the local contribution was frozen, by statute, at the amount contributed in year 2002. Kalkaska County appropriated $61,875 to the Community Mental Health for the year ended December 31, 2016.

46th Judicial Trial Court (the "Court") - The Court has responsibilities for Kalkaska, Crawford and Otsego counties. The funding formula is based upon the previous year's caseload. For the year ended December 31, 2016 the funding was 28.0%, 28.0%, and 44.0% for Crawford, Kalkaska and Otsego County, respectively. Each county is responsible for the court budget as it related to its own court expenses. The remaining expenses that are shared by Kalkaska, Crawford and Otsego counties are incurred by and paid by Crawford County with the two other counties appropriating funds based on the funding formula. Kalkaska County appropriated $21,678 to the Court for the year ended December 31, 2016.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is 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 revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days or within one year for expenditure driven grants. For property taxes, "available" is defined as collected within 90 days or expected to be purchased by the delinquent tax revolving fund in the subsequent year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

The *general fund* is the County's primary operating fund. it accounts for all the financial resources of the general government, except those accounted for and reported in another fund type.

The *housing special revenue fund* accounts for the proceeds from federal grants which provides housing assistance in the form of low or zero interest loans to low income citizens within the County to provide housing or housing repairs.

The *Commission on Aging special revenue fund* accounts for the proceeds of a dedicated millage levied to pay for services provided to the areas aged population.

The County reports the following major proprietary funds:

The *delinquent tax fund* is used to pay each local governmental unit, including the County general fund, the respective amount of taxes not collected as of March 1 of each year. Financing is provided by subsequent collection of delinquent property taxes by the County Treasurer.

The s*portsplex fund* operates an ice arena/swimming pool facility.

Additionally, the County reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The other postemployment benefits trust fund accounts for the accumulation of resources for other postemployment benefit payments to qualified employees.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity (such as taxes collected for other governments).

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The general fund provides certain central services to other funds of the County which are presented as program expenses in the funds receiving services. The related general fund revenue has been netted against program expense in the government-wide statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted net position represents amounts that are subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

The government's cash and cash equivalents include amounts in demand deposit accounts, certificates of deposit and short term investments with original maturities of three months or less from the date of acquisition. Investments, exclusive of certificates of deposit, are stated at fair value. Certificates of deposit are carried at cost plus accrued interest, since the original maturity dates are less than one year or the certificates are non-participating (i.e., there is no available market for trade prior to maturity).

State statutes and County policy authorize the County to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Bankers' acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the County's investments.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are considered unearned.

Other Assets

Inventories are accounted for utilizing the consumption method and are valued at lower of cost (first-in, first-out) or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, buildings, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets having a useful life in excess of two years and whose costs exceed $10,000. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at their estimated acquisition value as of the donation date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the asset constructed.

Property, infrastructure, buildings and equipment are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	5-40
Land improvements	7-40
Machinery and equipment	5-30

The County reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred the asset is written down to its net realizable value and a current charge to income is recognized.

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 represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The County reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

Compensated Absences

Eligible employees are permitted to accumulate earned but unused sick and vacation pay benefits in varying amounts based on length of service and certain other established criteria. Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick pay that is eligible to be paid out when employees separate from service with the County is also accrued in these same statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

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, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that are intended to finance future periods.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners (the government’s highest level of decision-making authority). A formal resolution of the Board of Commissioners is required to establish, modify, or rescind a fund balance commitment. The County reports assigned fund balance for amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Commissioners has delegated the authority to assign fund balance to the County Administrator or his/her designee. Unassigned fund balance is the residual classification for the General Fund.

The County Board of Commissioners has adopted a minimum fund balance policy in which the unassigned fund balance of the General Fund will be equal to at least 20 percent of the subsequent year's adopted General Fund budgeted expenditures and transfers out. If the General Fund balance falls below the minimum range, the County will replenish shortages or deficiencies using budget strategies and timeframes as detailed in the policy.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Pensions

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 Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The County utilizes various investment instruments which are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Notes to Financial Statements

2. BUDGETARY INFORMATION

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. Debt service funds are also included in the budgetary process; however, State statutes do not require legally adopted budgets for such funds. The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During the month of July, budget worksheets, which list prior year expenditures and current partial-year expenditures, are sent to each department by the Contracted accountant. Each department prepares their budget and returns it to the County Clerk. There are several budget workshops with the Commissioners, the department heads and the contracted accountant to discuss any changes to the budgets as requested.

2. Public hearings are conducted at the County Building to obtain taxpayer comments.

3. Prior to December 31st, the budget is legally enacted on a line-item basis through passage of a resolution.

4. Budget amendments are made by the County Commission as the need arises during the year.

5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.

6. Budget appropriations lapse at year end.

7. The original budget was amended during the year in compliance with the County procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the final budgetary expenditures as amended by the County Commission.

3. ACCOUNTABILITY AND COMPLIANCE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Despite the fact that the approved budgets of the County were adopted on the line-item level basis for all governmental funds, which is the legal level of control, reporting violations at this level is not considered practical. Thus violations are reported at the department (activity) level. During the year ended December 31, 2016, the County incurred expenditures which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
General government:			
Liability insurance	$ 161,196	$ 217,583	$ 56,387
Public safety:			
Township deputies	151,294	158,190	6,896
Snowmobile law enforcement	8,260	8,457	197
Zero tolerance	34,073	36,781	2,708
Health and welfare:			
Health department	221,032	226,426	5,394
Housing fund:			
Community and economic development	9,800	10,935	1,135
Animal control donation fund:			
Public safety	11,250	11,283	33
911 central dispatch fund:			
Public safety	595,240	605,375	10,135
Law library fund:			
Judicial	8,000	10,567	2,567
Inmate programs & services fund:			
Health and welfare	10,000	11,615	1,615
Child care fund:			
Health and welfare	175,323	429,545	254,222

Deficit Fund Balance

At December 31, 2016 the County reported deficit fund balance in the Child Care special revenue fund of $214,965.

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2016:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and cash equivalents	$ 10,414,469	$ 1,344,294	$ 11,758,763
Statement of Fiduciary Net Position			
Other postemployment benefit trust fund:			
Cash and cash equivalents	152,333	-	152,333
Investments	120,788	-	120,788
Agency funds:			
Cash and cash equivalents	223,997	-	223,997
Total	$ 10,911,587	$ 1,344,294	$ 12,255,881

Deposits and investments	
Primary Government	
Bank deposits:	
Checking and savings accounts (pooled)	$ 7,999,674
Other checking and savings	790,270
Certificates of deposit:	
Due within one year	333,627
Due in one to five years	560,131
Investments	950,065
Other postemployment benefit trust fund:	
Checking and savings accounts (pooled)	152,333
Investments	120,788
Cash on hand	4,699
Total Primary Government	10,911,587
Road Commission Component Unit	
Bank deposits:	
Checking and savings accounts	1,344,044
Cash on hand	250
Total Road Commission Component Unit	1,344,294
Total deposits and investments	$ 12,255,881

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity of the certificates of deposit held at year-end is disclosed in the table above. The commercial paper held at year-end matures within one year.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, $8,777,433 of the bank balance (excluding Road Commission) of $10,422,722 was exposed to custodial credit risk because it was uninsured and uncollateralized. The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution with which it deposits County funds and assesses the level of risk of each institution; only those institutions with an acceptable level are used as depositories.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2016, none of the County's investments were exposed to custodial credit risk inasmuch as all investments are held in the name of the County.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, are summarized as follows:

S&P AAAm	$ 302,349
S&P A1 (Commercial Paper)	397,943
S&P A2 (Commercial Paper)	249,773
Total	$ 950,065

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on concentration of credit risk.

Fair Value. The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. These levels are determined by the County's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary. The County had the following recurring fair value measurements as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Commercial paper	$ -	$ 647,716	$ -	$ 647,716
Investments carried at amortized cost:				
Government investment pool				302,349
				$ 950,065

The following is a description of the valuation methodology used for assets recorded at fair value. There have been no changes from the prior year in the methodologies used.

Commercial paper investments are classified as Level 2 of the fair value hierarchy as the investments are traded only in secondary markets.

Other Postemployment Benefits Trust Fund

The deposits of the County’s other postemployment benefit trust fund are included in the County’s pooled cash and cash equivalents. The fund's investments are maintained in a separate account and are subject to separate investment policies and State statutes. Accordingly, the required disclosures for the other postemployment benefits trust fund deposits and investments are presented separately.

Deposits. Amounts reported as cash and cash equivalents in the statement of fiduciary net position are composed entirely of cash included in the County's pooled checking and savings accounts.

Investments. The Michigan Public Employees Retirement Systems’ Investment Act, Public Act 314 of 1965, as amended, authorizes the other postemployment benefits trust fund to invest in stocks, governmental and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The County board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the trust funds’ assets. All investment decisions are subject to Michigan law and the respective investment policies established by the County.

The investments of the other postemployment benefits trust fund are held in a bank administered trust fund.

Following is a summary of other postemployment benefits trust investments as of December 31, 2016:

	Interest Rate	Maturity	Morningstar Rating	Market Value
Mutual funds:				
Money market funds	0.04%	n/a	n/a	$ 25,812
Equity funds:				
High income	n/a	n/a	★	19,103
Real asset income	n/a	n/a	★★★★	21,027
Short-term income	n/a	n/a	★★★	28,381
Certificates of deposit	0.40%	1/27/2021	n/a	26,465
				$ 120,788

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's other postemployment benefits investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the name of the other postemployment benefits trust fund. Short-term investments in money market funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

The amounts reported as money market funds in the statement of plan net position are insured by the Securities Investors Protection Act for up to $500,000 each. The carrying amount of the other postemployment benefits trust account as of December 31, 2016 was $25,812, which was fully insured.

The amounts reported as certificates of deposit in the statement of plan net position are insured by the Federal Deposit Insurance Corporation for up to $250,000 each. The carrying amount of the other postemployment benefits trust account as of December 31, 2016 was $26,465, which was fully insured.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Fair Value. The investments held in the trust are in the form of equity mutual funds, which being actively traded on primary markets, were classified as level 1 fair value.

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	$ 5,230	$ -	$ -
Taxes - current	1,721,895	715,868	704,807
Taxes - delinquent	-	841,468	-
Interest and administrative fees	-	133,047	-
Loans	779,175	-	-
Due from other governments	250,028	25,666	585,575
	$ 2,756,328	$ 1,716,049	$ 1,290,382

Of the amount reported above for loans receivable in governmental activities, $777,342 is not expected to be collected within one year.

6. PAYABLES AND ACCRUED LIABILITIES

Payables and accrued liabilities are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	$ 232,784	$ 20,157	$ 154,798
Accrued liabilities	87,364	3,534	88,511
Accrued interest payable	-	15,902	6,302
Due to other governments	117,761	-	66,332
	$ 437,909	$ 39,593	$ 315,943

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund advances as of December 31, 2016, was as follows:

	Advances to Other Funds	Advances from Other Funds
Delinquent tax fund	$ 351,484	$ -
Sportsplex fund	-	351,484
	$ 351,484	$ 351,484

This advance was made for the purposes of building the sportsplex.

For the year ended December 31, 2016, interfund transfers consisted of the following:

	Transfers in		
Transfers Out	General fund	Nonmajor governmental funds	Totals
General fund	$ -	$ 173,632	$ 173,632
Nonmajor governmental fund	85,579	-	85,579
Delinquent tax fund	10,416	-	10,416
	$ 95,995	$ 173,632	$ 269,627

Transfers are generally used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Notes to Financial Statements

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	$ 452,521	$ -	$ -	$ -	$ 452,521
Construction in progress	143,729	-	-	(143,729)	-
	596,250	-	-	(143,729)	452,521
Capital assets, being depreciated:					
Buildings and improvements	6,268,113	127,655	-	143,729	6,539,497
Land improvements	597,651	-	-	-	597,651
Machinery and equipment	3,171,316	174,806	-	-	3,346,122
	10,037,080	302,461	-	143,729	10,483,270
Less accumulated depreciation for:					
Buildings and improvements	(5,047,981)	(144,915)	-	-	(5,192,896)
Land improvements	(500,043)	(10,125)	-	-	(510,168)
Machinery and equipment	(2,645,742)	(147,020)	-	-	(2,792,762)
	(8,193,766)	(302,060)	-	-	(8,495,826)
Total capital assets being depreciated, net	1,843,314	401	-	143,729	1,987,444
Governmental activities capital assets, net	$ 2,439,564	$ 401	$ -	$ -	$ 2,439,965

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, being depreciated:					
Buildings and improvements	$ 6,629,749	$ -	$ -	$ -	$ 6,629,749
Furniture, fixtures & equipment	291,955	-	-	-	291,955
	6,921,704	-	-	-	6,921,704
Less accumulated depreciation for:					
Buildings and improvements	(2,203,090)	(135,040)	-	-	(2,338,130)
Furniture, fixtures & equipment	(260,052)	(9,973)	-	-	(270,025)
	(2,463,142)	(145,013)	-	-	(2,608,155)
Total capital assets being depreciated, net	$ 4,458,562	$ (145,013)	$ -	$ -	$ 4,313,549

Depreciation expense was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
Legislative	$ 48,464
Judicial	16,988
General government	31,540
Public safety	134,766
Public works	5,475
Health and welfare	38,601
Community and economic development	976
Recreation and culture	25,250
	$ 302,060
Depreciation of business-type activities by function	
Enterprise funds:	
Sportsplex	$ 145,013

Notes to Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	$ 230,003	$ 27,167	$ (42,862)	$ 214,308	$ 42,862
Business-type Activities					
2010 Refunding Bonds, $4,385,000, due in annual installments of $350,000 to $495,000 through April 2020, interest at 2.0 to 3.603%, payable semi-annually, secured by the full faith and credit of the County	$ 2,320,000	$ -	$ (400,000)	$ 1,920,000	$ 450,000

Annual debt service requirements to maturity for long-term debt are as follows:

	Business-type Activities	
Year Ended December 31,	Principal	Interest
2017	$ 450,000	$ 56,297
2018	495,000	41,560
2019	490,000	25,805
2020	485,000	8,738
	$ 1,920,000	$ 132,400

The compensated absence and net pension liability attributable to the governmental activities will be liquidated by the general fund.

10. RELATED PARTY TRANSACTIONS

During the year, the County entered into transactions with businesses that were owned by the immediate family members of two key members of the County's management. Expenditures in the amount of $9,480 and $10,395 were incurred and paid to these related parties for property posting related to foreclosures and snow removal, respectively.

Notes to Financial Statements

11. RISK MANAGEMENT

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan that authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance, and claim review and processing services for all member governments pursuant to its charter.

The County makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a State pool member and has deductibles that differ for each type of coverage.

Employee Benefits-Commercial Insurance Provider-Workers' Compensation

The County has insurance coverage for workers' compensation provided by an independent insurance company licensed in the State of Michigan.

At December 31, 2016, there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

12. PROPERTY TAXES

County general fund property taxes are levied on July 1 of each year (the lien date) and are due in full by September 14, though they do not become delinquent until March 1 of the following year. For levies other than the general fund, the lien date is December 1.

Property taxes are levied on the assessed taxable value of the property as established by local units, accepted by the County and equalized under State statute at approximately 50 percent of the current estimated market value.

The taxable value of real and personal property for 2016, for which revenue was recognized in the general fund, was $739,361,055. The general operating tax rate for this levy was 5.4562 mills. The taxable value of real and personal property for 2015, for which revenue was recognized in all other funds, was $732,416,220. The tax rates for these voted levies were 1.0000 mills assessed for services provided to senior citizens, 0.1160 mills assessed for recycling services, 0.1333 mills assessed for animal control, 0.7300 mills assessed for debt service, 0.2500 mills assessed for library operations, and 0.2500 mills assessed for the Sportsplex.

Notes to Financial Statements

13. CONTINGENT LIABILITIES

From time to time the County may be a defendant in various lawsuits. Although the outcome of any potential lawsuits is not presently determinable, in the opinion of the County and its Corporate Counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

14. PENSION BENEFIT PLANS

General Information About the Plan

Plan Description. The County participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 or 5 year period) and multipliers ranging from 1.5% to 2.5%. Participants are considered to be fully vested in the plan after 6 or 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, age 55 with 15 years of service, or age 55 with 25 years of service, depending on division/bargaining unit.

Employees Covered by Benefit Terms. At the December 31, 2015 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	78
Inactive employees entitled to but not yet receiving benefits	25
Active employees	104
Total membership	207

Contributions. The County is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. 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. In addition, the employer may establish contribution rates to be paid by its covered employees.

Notes to Financial Statements

Employer and employee contribution rates and amounts, by division/bargaining unit, were as follows for the year ended December 31, 2016:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
New Hires	Hybrid	Open	7.00%	0.00%
Teamsters	Defined Benefit	Closed	$ 2,847	2.00%
Law Enforcement	Defined Benefit	Closed	23,982	0.00%
Commission on Aging	Defined Benefit	Closed	1,397	3% - 5%
Admin / Dept Heads	Defined Benefit	Closed	7,135	1.00%
Court Division	Defined Benefit	Closed	5,073	3.00%

Net Pension Liability. The County's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.51%
Diversifying strategies	10.00%	6.56%	0.66%
	100.00%		
Inflation			3.25%
Administrative expenses netted above			0.50%
Investment rate of return			8.25%

Discount Rate. The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. 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.

Change in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015	$ 18,688,335	$ 13,403,662	5,284,673
Changes for the year:			
Service cost	356,320	-	356,320
Interest	1,507,358	-	1,507,358
Differences between expected and actual experience	533,845	-	533,845
Changes in assumptions	1,006,009	-	1,006,009
Employer contributions	-	572,269	(572,269)
Employee contributions	-	26,330	(26,330)
Net investment income	-	1,501,673	(1,501,673)
Benefit payments, including refunds of employee contributions	(1,190,966)	(1,190,966)	-
Administrative expense	-	(29,660)	29,660
Other changes	(58,805)	-	(58,805)
Net changes	2,153,761	879,646	1,274,115
Balances at December 31, 2016	$ 20,842,096	$ 14,283,308	$ 6,558,788

Changes in Assumptions. Based on the 2009-2013 Experience Study the following assumptions were changed starting with the December 31, 2015 valuation: (1) mortality table was adjusted to reflect longer lifetimes, (2) assumed annual rate of return of investment return, net of all expenses, was lowered from 8% to 7.75% (3) asset smoothing period was changed from 10 years to 5 years (4) the amortization period was moved to a fixed period amortization for the December 31, 2015 annual valuations. The main assumption and method changes in the most recent actuarial valuation included an adjustment to the mortality table to reflect longer lifetimes, the assumed annual rate of return, net of all expenses, was lowered from 8.0% to 7.75%, and the asset smoothing was changed from 10 to 5 years.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the County, calculated using the discount rate of 8.25%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
County's net pension liability	$ 8,958,084	$ 6,558,788	$ 4,539,246

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the County recognized pension expense of $951,725. The County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	$ 427,076	$ -	$ 427,076
Changes in assumptions	804,807	-	804,807
Net difference between projected and actual earnings on pension plan investments	474,083	-	474,083
Total	$ 1,705,966	$ -	$ 1,705,966

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

Year Ended December 31,	Amount
2017	$ 494,101
2018	494,101
2019	494,100
2020	223,664
Total	$ 1,705,966

Payable to the Pension Plan. At December 31, 2016, the County reported a payable of $58,465 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2016.

15. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The Kalkaska County Retiree Medical Plan is a single-employer defined benefit healthcare plan administered by Kalkaska County and can be amended at its discretion. The Plan provides postemployment health care benefits to employees who retired from Kalkaska County. Eligibility is based on the following: Commission on Aging, Kaliseum and other Teamsters may be eligible at age 55 with 25 years of service or age 60 with 15 years of service. Sheriff employees may be eligible with 25 years of service or age 60 with 15 years of service.

Funding Policy. At December 31, 2015, the date of the most recent actuarial valuation, membership of the plan consisted of the following:

Active plan members	83
Retirees and beneficiaries receiving benefits	12
Total plan members	95

Active members are not obligated to make contributions to the Plan at this time. The County is required to contribute the annual required contribution of the employer (ARC) at an actuarially determined rate as required by the parameters within GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed 30 years. The contribution requirements of plan members and the County are established and may be amended by the County Board of Commissioners.

Annual OPEB Cost and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the County's net OPEB asset:

Annual required contribution	$ 39,201
Interest on net OPEB asset	(10,400)
Adjustment to annual required contribution	26,001
Net OPEB cost (expense)	54,802
Contributions made	(62,000)
Change in net OPEB asset	(7,198)
Net OPEB asset, beginning of year	(260,009)
Net OPEB asset, end of year	$ (267,207)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for 2016 and the previous two years were as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
2014	$ 50,764	122.13%	$ (249,846)
2015	51,837	119.61%	(260,009)
2016	54,802	113.13%	(267,207)

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Funded Status and Funding Progress. As of December 31, 2015, the date of the most recent actuarial valuation, the Plan was 47.2% percent funded. The actuarial accrued liability for benefits was $549,566, and the actuarial value of assets was $259,523, resulting in an unfunded actuarial accrued liability (UAAL) of $290,043. The covered payroll (annual payroll of active employees covered by the Plan) was not available.

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

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The December 31, 2015 valuation was based on a discount rate of 4 percent. The actuarial assumptions included a post-retirement interest rate of 4 percent, annual healthcare cost increase of 8% for 2016 graded down to an ultimate rate of 5%, annual cost increase for dental and vision benefits of 3%. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2015 was 11 years.

Notes to Financial Statements

16. FUND BALANCES - GOVERNMENTAL FUNDS

The County reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepaids	$ 158,394	$ -	$ 8,752	$ 17,082	$ 184,228
Restricted for:					
Judicial	-	-	-	68,755	68,755
Public safety	-	-	-	1,029,414	1,029,414
Community and economic development	-	18,052	-	162,799	180,851
Health and welfare	-	-	1,184,857	49,100	1,233,957
Recreation and culture	-	-	-	352,494	352,494
Total restricted	-	18,052	1,184,857	1,662,562	2,865,471
Committed for:					
Public safety	1,542	-	-	18,095	19,637
Self-insurance	81,546	-	-	-	81,546
Technology	94,322	-	-	-	94,322
Elections	58,167	-	-	-	58,167
Capital improvements	-	-	-	692,394	692,394
Historic preservation	-	-	-	179,035	179,035
Equipment replacement	39,906	-	-	-	39,906
Other purposes	28,073	-	-	26,236	54,309
Total committed	303,556	-	-	915,760	1,219,316
Assigned for:					
Unfunded retirement	250,000	-	-	-	250,000
Long-term technology	85,000	-	-	-	85,000
Total assigned	335,000	-	-	-	335,000
Unassigned (deficit)	1,920,438	-	-	(216,507)	1,703,931
Total fund balances, governmental funds	$ 2,717,388	$ 18,052	$ 1,193,609	$ 2,378,897	$ 6,307,946

Notes to Financial Statements

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of December 31, 2016, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	$ 452,521	$ -	$ 5,223,018
Capital assets being depreciated, net	1,987,444	4,313,549	15,565,399
	2,439,965	4,313,549	20,788,417
Related debt:			
Total bonds and loans payable	-	1,920,000	-
Capital leases	-	-	635,823
	-	1,920,000	635,823
Net investment in capital assets	$ 2,439,965	$ 2,393,549	$ 20,152,594

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan - Primary Government

Schedule of Changes in the County's Net Pension Liability and Related Ratios

	Year Ended December 31,	
	2015	2016
Total pension liability		
Service cost	$ 354,494	$ 356,320
Interest	1,449,248	1,507,358
Differences between expected and actual experience	-	533,845
Changes of assumptions	-	1,006,009
Benefit payments, including refunds of employee contributions	(1,093,074)	(1,190,966)
Other changes	41,736	(58,805)
Net change in total pension liability	752,404	2,153,761
Total pension liability, beginning of year	17,935,931	18,688,335
Total pension liability, end of year	18,688,335	20,842,096
Plan fiduciary net position		
Employer contributions	568,543	572,269
Employee contributions	69,217	26,330
Net investment income	(209,081)	1,501,673
Benefit payments, including refunds of employee contributions	(1,093,074)	(1,190,966)
Administrative expense	(30,654)	(29,660)
Net change in plan fiduciary net position	(695,049)	879,646
Plan fiduciary net position, beginning of year	14,098,711	13,403,662
Plan fiduciary net position, end of year	13,403,662	14,283,308
County's net pension liability	$ 5,284,673	$ 6,558,788
Plan fiduciary net position as a percentage of total pension liability	71.7%	68.5%
Covered payroll	$ 3,453,033	$ 3,581,217
County's net pension liability as a percentage of covered payroll	153.0%	183.1%

Notes:

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan - Primary Government

Schedule of the Net Pension Liability

Fiscal Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	$ 18,688,335	$ 13,403,662	$ 5,284,673	71.7%	$ 3,453,033	153.0%
2016	20,842,096	14,283,308	6,558,788	68.5%	3,581,217	183.1%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan - Primary Government

Schedule of Contributions

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	$ 568,543	$ 568,543	$ -	$ 3,453,033	16.5%
2016	572,269	572,269	-	3,581,217	16.0%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date	Actuarially determined contribution rates are calculated as of the December 31 which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2016, based on 12/31/2014 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll
Remaining amortization period	24 years
Asset valuation method	Open; 10-year smooth market
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.0%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2011 valuation. The next study is scheduled for 2016.
Mortality	50% male-50% female blend of the 1994 Group Annuity Mortality Table. For disabled retirees, the regular mortality table is used with a 10-year set forward rate.

Changes in Assumptions

Based on the 2009-2013 Experience Study the following assumptions were changed starting with the December 31, 2015 valuation: (1) mortality table was adjusted to reflect longer lifetimes, (2) assumed annual rate of return of investment return, net of all expenses, was lowered from 8% to 7.75% (3) asset smoothing period was changed from 10 years to 5 years.

Required Supplementary Information
Single Employer Other Postemployment Benefits Plan
Primary Government

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	$ -	$ 619,540	$ 619,540	0.0%	$ 4,252,824	14.6%
12/31/2012	-	533,923	533,923	0.0%	3,156,876	16.9%
12/31/2015	259,523	549,566	290,043	47.2%	n/a	n/a

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2014	$ 49,934	568.3%
2015	49,934	124.2%
2016	41,870	148.1%

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

KALKASKA COUNTY, MICHIGAN

Schedule of Expenditures by Activity
Budget and Actual
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Legislative:				
County board	$ 227,326	$ 252,823	$ 241,039	$ (11,784)
Judicial:				
Judicial control	858,042	882,209	829,761	(52,448)
46th circuit trial court/ friend of the court	27,000	27,000	22,652	(4,348)
Jury board	5,600	6,810	6,027	(783)
Total judicial	890,642	916,019	858,440	(57,579)
General government:				
Elections	42,300	88,195	77,008	(11,187)
County clerk	232,177	242,498	231,120	(11,378)
Equalization	155,537	178,137	160,131	(18,006)
Prosecuting attorney	371,083	400,563	368,546	(32,017)
Register of deeds	186,370	194,533	186,007	(8,526)
Survey Remonumentation	27,621	27,621	27,621	-
Treasurer	182,857	207,684	204,419	(3,265)
County government	74,106	124,308	112,852	(11,456)
Building and grounds	392,844	463,502	450,741	(12,761)
Various accounts	187,016	189,016	166,961	(22,055)
Liability insurance	161,196	161,196	217,583	56,387
Total general government	2,013,107	2,277,253	2,202,989	(74,264)
Public safety:				
Law enforcement	720,882	790,849	742,433	(48,416)
Sheriff fleet	163,661	161,027	130,317	(30,710)
Court civil transports	105,924	111,424	70,568	(40,856)
Administration	311,341	331,786	294,149	(37,637)
Township deputies	124,977	151,294	158,190	6,896
Community corrections	81,584	72,435	58,909	(13,526)
Domestic violence grant	17,660	17,660	16,274	(1,386)
OHSP grant	-	9,447	5,858	(3,589)
Marine law enforcement	5,088	13,515	9,297	(4,218)
Snowmobile law enforcement	4,600	8,260	8,457	197
Secondary road patrol PA 416 grant	75,953	91,768	82,001	(9,767)
DNR ORV grant	30,000	45,185	43,388	(1,797)
Zero tolerance	34,073	34,073	36,781	2,708
Hunters safety class	-	214	214	-
Corrections Department/Jail	873,077	876,677	823,485	(53,192)
Emergency preparedness	17,593	19,640	14,467	(5,173)
Total public safety	2,566,413	2,735,254	2,494,788	(240,466)

continued...

KALKASKA COUNTY, MICHIGAN

Schedule of Expenditures by Activity
Budget and Actual
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public works:				
Public works	$ 91,489	$ 107,254	$ 104,698	$ (2,556)
Health and welfare:				
Health department	221,032	221,032	226,426	5,394
Veteran's affairs	45,251	46,350	38,513	(7,837)
Total health and welfare	266,283	267,382	264,939	(2,443)
Community and economic development:				
Zoning	87,710	108,772	101,611	(7,161)
MSU extension	80,924	81,283	78,533	(2,750)
Total community and economic development	168,634	190,055	180,144	(9,911)
Other:				
Fringe	261,400	288,950	200,019	(88,931)
Other appropriation	168,392	63,860	63,760	(100)
Total other	429,792	352,810	263,779	(89,031)
Total expenditures	$ 6,653,686	$ 7,098,851	$ 6,610,816	$ (488,035)

concluded

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2016

	Special Revenue Funds					
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Reserve Officers	Friend of the Court	Animal Control Donation
Assets						
Cash and cash equivalents	$ 13,505	$ 24,990	$ 2,008	$ 6,413	$ 14,587	$ 78,715
Receivables:						
Taxes	-	-	-	-	-	-
Due from other governments	-	-	-	-	61,126	-
Prepaids	-	-	-	-	2,772	-
Total assets	$ 13,505	$ 24,990	$ 2,008	$ 6,413	$ 78,485	$ 78,715
Liabilities						
Negative equity in pooled cash	$ -	$ -	$ -	$ -	$ -	$ -
Accounts payable	-	198	564	-	3,539	-
Accrued liabilities	-	-	-	-	3,419	-
Due to other governments	-	-	-	-	-	-
Total liabilities	-	198	564	-	6,958	-
Deferred inflows of resources						
Taxes levied for a subsequent period	-	-	-	-	-	-
Fund balances						
Nonspendable	-	-	-	-	2,772	-
Restricted	13,505	-	-	6,413	68,755	78,715
Committed	-	24,792	1,444	-	-	-
Unassigned (deficit)	-	-	-	-	-	-
Total fund balances	13,505	24,792	1,444	6,413	71,527	78,715
Total liabilities, deferred inflows of resources and fund balances	$ 13,505	$ 24,990	$ 2,008	$ 6,413	$ 78,485	$ 78,715

Special Revenue Funds						
Extension Strong Family Safe Child	Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/ Technology	Recycling
$ -	$ 179,035	$ 4,125	$ 166,963	$ 734,268	$ 86,779	$ 33,204
-	-	-	-	-	-	85,491
-	-	-	-	124,425	-	3,270
-	-	-	2,288	7,710	-	-
$ -	$ 179,035	$ 4,125	$ 169,251	$ 866,403	$ 86,779	$ 121,965
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	1,907	38,379	11,348	1,046
-	-	-	2,257	6,567	-	1,346
-	-	-	-	-	-	-
-	-	-	4,164	44,946	11,348	2,392
-	-	-	-	-	-	85,766
-	-	-	2,288	7,710	-	-
-	-	-	162,799	813,747	75,431	33,807
-	179,035	4,125	-	-	-	-
-	-	-	-	-	-	-
-	179,035	4,125	165,087	821,457	75,431	33,807
$ -	$ 179,035	$ 4,125	$ 169,251	$ 866,403	$ 86,779	$ 121,965

continued...

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2016

	Special Revenue Funds					
	Corrections Officers Training	Animal Control	Law Library	Concealed Pistol Licensing	County Library	Soil Conservation
Assets						
Cash and cash equivalents	$ 6,155	$ 41	$ 449	$ 15,143	$ 357,261	$ 548
Receivables:						
Taxes	-	98,044	-	-	184,271	184,292
Due from other governments	-	7,090	-	-	-	-
Prepaids	-	1,027	-	-	1,743	-
Total assets	$ 6,155	$ 106,202	$ 449	$ 15,143	$ 543,275	$ 184,840
Liabilities						
Negative equity in pooled cash	$ -	$ -	$ -	$ -	$ -	$ -
Accounts payable	-	1,709	442	-	1,932	-
Accrued liabilities	-	1,692	-	-	2,273	-
Due to other governments	-	-	-	-	-	-
Total liabilities	-	3,401	442	-	4,205	-
Deferred inflows of resources						
Taxes levied for a subsequent period	-	98,335	-	-	184,840	184,840
Fund balances						
Nonspendable	-	1,027	-	-	1,743	-
Restricted	6,155	3,439	7	15,143	352,487	-
Committed	-	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	-	-
Total fund balances	6,155	4,466	7	15,143	354,230	-
Total liabilities, deferred inflows of resources and fund balances	$ 6,155	$ 106,202	$ 449	$ 15,143	$ 543,275	$ 184,840

Special Revenue Funds					Capital Project Funds		
Inmate Programs & Services	TNT Drug Awareness	Child Care	Veterans Trust	Marine Clearwater Township	County Building	County Library Building	Total
$ 15,329	$ 13,970	$ -	$ 79	$ 16,866	$ 219,410	$ 473,014	$ 2,462,857
-	-	-	-	-	-	-	552,098
-	-	-	-	-	-	-	195,911
-	-	1,542	-	-	-	-	17,082
$ 15,329	$ 13,970	$ 1,542	$ 79	$ 16,866	$ 219,410	$ 473,014	$ 3,227,948
$ -	$ -	$ 89,755	$ -	$ -	$ -	$ -	$ 89,755
115	-	7,641	-	-	-	30	68,850
-	-	1,350	-	-	-	-	18,904
-	-	117,761	-	-	-	-	117,761
115	-	216,507	-	-	-	30	295,270
-	-	-	-	-	-	-	553,781
-	-	1,542	-	-	-	-	17,082
15,214	-	-	79	16,866	-	-	1,662,562
-	13,970	-	-	-	219,410	472,984	915,760
-	-	(216,507)	-	-	-	-	(216,507)
15,214	13,970	(214,965)	79	16,866	219,410	472,984	2,378,897
$ 15,329	$ 13,970	$ 1,542	$ 79	$ 16,866	$ 219,410	$ 473,014	$ 3,227,948

concluded

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2016

	Special Revenue Funds					
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Reserve Officers	Friend of the Court	Animal Control Donation
Revenues						
Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental:						
Federal	990	-	-	-	196,184	-
State	-	-	-	-	22,343	-
Local	-	-	-	-	10,010	-
Charges for services	-	2,360	2,521	-	32,578	-
Fines and forfeitures	-	-	-	-	-	-
Interest	15	30	10	7	43	89
Rents	-	26,020	23,635	-	-	-
Donations	-	-	-	-	-	-
Other	-	-	4,500	-	-	3,244
Total revenues	1,005	28,410	30,666	7	261,158	3,333
Expenditures						
Current:						
Judicial	-	-	-	-	244,175	-
Public safety	700	-	-	913	-	11,283
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	26,433	58,530	-	-	-
Total expenditures	700	26,433	58,530	913	244,175	11,283
Revenues over (under) expenditures	305	1,977	(27,864)	(906)	16,983	(7,950)
Other financing sources (uses)						
Transfers in	-	-	6,616	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	6,616	-	-	-
Net change in fund balances	305	1,977	(21,248)	(906)	16,983	(7,950)
Fund balances, beginning of year	13,200	22,815	22,692	7,319	54,544	86,665
Fund balances, end of year	$ 13,505	$ 24,792	$ 1,444	$ 6,413	$ 71,527	$ 78,715

Special Revenue Funds						
Extension Strong Family Safe Child	Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/ Technology	Recycling
$ -	$ -	$ -	$ -	$ -	$ -	$ 85,849
-	-	-	251,703	-	-	-
-	-	-	-	-	-	-
-	-	-	-	143,579	-	3,270
-	-	-	-	-	-	-
-	-	-	-	508,575	-	115,470
-	47,710	-	-	-	-	-
1	209	6	185	860	-	57
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	39,264	-
1	47,919	6	251,888	653,014	39,264	204,646
-	59,971	-	-	-	-	-
-	-	5,461	193,643	605,375	26,508	-
-	-	-	-	-	-	235,933
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	59,971	5,461	193,643	605,375	26,508	235,933
1	(12,052)	(5,455)	58,245	47,639	12,756	(31,287)
-	-	-	-	-	-	-
(2,237)	-	-	-	(80,291)	-	-
(2,237)	-	-	-	(80,291)	-	-
(2,236)	(12,052)	(5,455)	58,245	(32,652)	12,756	(31,287)
2,236	191,087	9,580	106,842	854,109	62,675	65,094
$ -	$ 179,035	$ 4,125	$ 165,087	$ 821,457	$ 75,431	$ 33,807

continued...

KALKASKA COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2016

	Special Revenue Funds					
	Corrections Officers Training	Animal Control	Law Library	Concealed Pistol Licensing	County Library	Soil Conservation
Revenues						
Taxes	$ -	$ 98,339	$ -	$ -	$ 185,003	$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental:						
Federal	-	-	-	-	-	-
State	-	7,090	-	-	14,075	-
Local	-	-	2,713	-	-	-
Charges for services	4,500	4,480	-	11,778	7,387	-
Fines and forfeitures	-	-	-	-	120,293	-
Interest	6	29	-	11	1,412	-
Rents	-	-	-	-	-	-
Donations	-	-	-	-	-	-
Other	-	-	-	-	3,277	-
Total revenues	4,506	109,938	2,713	11,789	331,447	-
Expenditures						
Current:						
Judicial	-	-	10,567	-	-	-
Public safety	2,661	113,231	-	-	-	-
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	-	-	-	352,218	-
Total expenditures	2,661	113,231	10,567	-	352,218	-
Revenues over (under) expenditures	1,845	(3,293)	(7,854)	11,789	(20,771)	-
Other financing sources (uses)						
Transfers in	-	-	7,250	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	7,250	-	-	-
Net change in fund balances	1,845	(3,293)	(604)	11,789	(20,771)	-
Fund balances, beginning of year	4,310	7,759	611	3,354	375,001	-
Fund balances, end of year	$ 6,155	$ 4,466	$ 7	$ 15,143	$ 354,230	$ -

Special Revenue Funds					Capital Project Funds		
Inmate Programs & Services	TNT Drug Awareness	Child Care	Veterans Trust	Marine Clearwater Township	County Building	County Library Building	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 369,191
-	-	-	-	-	-	-	251,703
-	-	-	-	-	-	-	197,174
-	-	126,253	-	-	-	-	316,610
-	-	-	2,676	7,000	-	-	22,399
10,901	-	-	-	-	-	-	700,550
-	-	-	-	-	-	-	168,003
15	15	4	1	19	159	5,975	9,158
-	-	-	-	-	-	-	49,655
-	-	-	-	-	-	15,904	15,904
-	-	-	-	-	36,480	-	86,765
10,916	15	126,257	2,677	7,019	36,639	21,879	2,187,112
-	-	-	-	-	-	-	314,713
-	-	-	-	-	-	-	959,775
-	-	-	-	-	-	-	235,933
11,615	600	429,545	4,727	680	-	-	447,167
-	-	-	-	-	-	20,121	457,302
11,615	600	429,545	4,727	680	-	20,121	2,414,890
(699)	(585)	(303,288)	(2,050)	6,339	36,639	1,758	(227,778)
-	-	105,509	-	-	54,257	-	173,632
-	-	-	-	(3,051)	-	-	(85,579)
-	-	105,509	-	(3,051)	54,257	-	88,053
(699)	(585)	(197,779)	(2,050)	3,288	90,896	1,758	(139,725)
15,913	14,555	(17,186)	2,129	13,578	128,514	471,226	2,518,622
$ 15,214	$ 13,970	$ (214,965)	$ 79	$ 16,866	$ 219,410	$ 472,984	$ 2,378,897

concluded

KALKASKA COUNTY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2016

	Trust & Agency	NPI Wireless Zoning	Sheriff's Commissary	Sheriff Forfeiture	Cemetery Trust
Assets					
Cash and cash equivalents	$ 130,211	$ 3,114	$ 31,114	$ 13,213	$ 31,652
Liabilities					
Due to other governments	$ 47,779	$ -	$ -	$ -	$ -
Undistributed collections	76,582	3,114	31,114	13,213	31,652
Other liabilities	5,850	-	-	-	-
Total liabilities	$ 130,211	$ 3,114	$ 31,114	$ 13,213	$ 31,652

Traffic Safety Committee	Library Penal Fine	Animal Control Adoption	Total
$ 1,375	$ 5,034	$ 8,284	$ 223,997
$ -	$ -	$ -	$ 47,779
1,375	5,034	8,284	170,368
-	-	-	5,850
$ 1,375	$ 5,034	$ 8,284	$ 223,997

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INTERNAL CONTROL AND COMPLIANCE

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Rehmann

Rehmann Robson

107 S. Cass St.
Suite A
Traverse City, MI 49684
Ph: 231.946.3230
Fx: 231.946.3955
rehmann.com

INDEPENDENT AUDITORS' 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*

June 28, 2017

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan
Kalkaska, 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 28, 2017. Our report includes a reference to other auditors who audited the financial statements of the Kalkaska County Road Commission discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 2016-002 to be a significant deficiency.

Compliance and Other Matters

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

Kalkaska County, Michigan's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 County'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.

Rehmann Robson LLC

Schedule of Findings and Responses
For the Year Ended December 31, 2016

2016-001 – Material Audit Adjustment (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed a certain material adjustment (which was approved and posted by management) to adjust the County's general ledger to the appropriate balances. This adjustment was necessary to properly record State chargebacks in the child care special revenue fund (and consequently governmental activities) related to State Ward foster children that are the fiscal responsibility of the County.

Cause. This condition was the result of a failure to properly reconcile a certain balance sheet account to its underlying detail.

Effect. As a result of this condition, the County's accounting records were initially misstated by an amount that was material to certain opinion units.

Recommendation. Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustment. Going forward, we recommend that management reconcile all balance sheet accounts to their underlying detail, and make any necessary adjustments prior to the commencement of the audit process.

View of Responsible Officials. Management is contracting with an outside party to assist with year-end procedures and identify inappropriate balances to reduce the number of necessary audit adjustments. The County expects some adjustments each year to be discovered during the audit process and therefore expects this comment to be repeated each year.

Schedule of Findings and Responses

For the Year Ended December 31, 2016

2016-002 -Timely/Accurate Reconciliations and Segregation of Duties (Repeated from Prior Year)

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the County's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record a transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. Several balance sheet account reconciliations and other transaction supporting documents were either not completed in a timely manner, ultimately incorrect and/or not subject to the independent review of a responsible member of management. The following specific items were noted:

- Bank reconciliations were not independently reviewed during the year.
- Several agency fund accounts have stagnant balances, small debit balances and have not been adjusted or reconciled to underlying detail in several years.

Cause. This condition is a result of the County's limited resources, and the small size and frequent turnover of its accounting staff.

Effect. As a result of this condition, the County is exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. Someone independent of bank reconciliation process will review, initial and date the reconciliation on a monthly basis.

Rehmann

Rehmann Robson

107 S. Cass St., Suite A
Traverse City, MI 49684
Ph: 231.946.3230
Fx: 231.946.3955
rehmann.com

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 28, 2017

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County") as of and for the year ended December 31, 2016, and have issued our report thereon dated June 28, 2017. We did not audit the financial statements of the Kalkaska County Road Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate to the Kalkaska County Road Commission, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 16, 2017, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures, and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated June 28, 2017. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on May 17, 2017.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the County's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- The assumptions used in the actuarial valuations of the other postemployment benefits plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatement detected as a result of audit procedures and corrected by management is described in the Schedule of Findings and Responses issued in connection with our report on internal control over financial reporting.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the County's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the County's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. 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.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of Kalkaska County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson LLC

Attachment A - Comments and Recommendations
For the December 31, 2016 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the County's internal control over financial reporting is described in our report, dated June 28, 2017, issued in accordance with *Government Auditing Standards.* This memorandum does not affect that report or our report dated June 28, 2017, on the financial statements of Kalkaska County, Michigan.

Accounting for Jail Commissary Funds and Discretionary Funds (repeat comment)

The County operates a small store for the benefit and use of its jail inmates. The profits from this operation are held as discretionary funds to support programs that benefit the jail or its inmates. These funds are currently accounted for in the County's trust and agency fund, a fund type intended only for balances held on behalf of outside parties. Since the discretionary funds are available for County use, and based on guidance of the Uniform Chart of Accounts issued by the Michigan Department of Treasury, we recommend accounting for the commissary activity in an enterprise fund.

Budgetary Control (repeat comment)

In the 2016 budget resolution, the Board of Commissioners approved a line-item budget, rather than a budget at the activity level as recommended by the State of Michigan Uniform Budgeting Manual. Since the budget represents a legal appropriation of public funds, and expenditures in excess of the budget are a violation of law, it is important that the Board adopt the budget at a level of detail that is manageable. We recommend that, although a line item budget may be used to develop the approved budget, that the Board legally approve the budget at the activity level so as to not hold itself accountable for individual line-item variances.

Capital Asset Records (repeat comment)

The County has defined capital assets as those assets having a useful life in excess of two years and a cost in excess of $10,000. However, the County’s capital asset records currently include several items with an original cost of less than the capitalization threshold. We recommend that the County consider disposing of those items that do not meet the stated capitalization criteria, or consider revising its current policy to better reflect the actual practice in recording capital assets.

Pooled Cash in Other Postemployment Benefits (OPEB) Trust Fund

It was noted that at December 31, 2016, the OPEB trust fund contained $152,333 in cash held in the County pooled cash account rather than invested in the Trust's investment account. While we recognize the need for the County to maintain a certain level of liquid funds in order to pay retiree benefits in a timely and practical manner, we recommend that the County consider transferring any excess funds to the investment account to maximize the Trust's long-term return on investment. Excess funds held in the investment account, which have the ability to earn more significant earnings, may also better support the discount rate being applied in the actuarial valuation.

Attachment A - Comments and Recommendations
For the December 31, 2016 Audit

Disbursements Authorized by the Governing Board After Disbursement

The State of Michigan Department of Treasury requires that the governing body approve all disbursements prior to payment. The governing body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including payroll-related taxes and withholdings). However, the policy must be limited and a detail of the payments made prior to board approval is still required to be presented to the governing body. The County's current policy appears to authorize a broader spectrum of disbursements that can be pre-approved by management than is allowed by the State statute. While we understand that the County has a policy in place and appears to be following it, we recommend that the County consider revising its policy and processes, as necessary, to allow for review and approval by the governing board prior to disbursement, except in certain specific circumstances as described by the Department of Treasury.

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Attachment B – Upcoming Changes in Accounting Standards / Regulations
For the December 31, 2016 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the County in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the County. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans
Effective 06/15/2017 (your FY 2017)

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans.

GASB 75 ■ Postemployment Benefits Other than Pensions
Effective 06/15/2018 (your FY 2018)

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

GASB 80 ■ Blending Requirements for Certain Component Units
Effective 06/15/2017 (your FY 2017)

This standard is an amendment to GASB 14, *The Financial Reporting Entity,* and requires blending component units incorporated as not-for-profit corporations in which the government is the sole corporate member. We do not expect this standard to have any significant effect on the County.

GASB 81 ■ Irrevocable Split-Interest Agreements
Effective 12/15/2017 (your FY 2017)

This standard addresses the accounting for split-interest agreements for which the government serves as the intermediary and/or the beneficiary. It requires governments to record assets, liabilities, and deferred inflows of resources at the inception of the agreement when serving as intermediary, or when the government controls the present service capacity of a beneficial interest. We do not expect this standard to have any significant effect on the County.

GASB 82 ■ Pension Issues
Effective 06/15/2017 (your FY 2017)

This standard is an amendment to GASB 67/68 to clarify several issues related to pensions. We do not expect this standard to have any significant effect on the County.

Attachment B – Upcoming Changes in Accounting Standards / Regulations
For the December 31, 2016 Audit

GASB 83 ■ Certain Asset Retirement Obligations
Effective 06/15/2019 (your FY 2019)

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the County.

GASB 84 ■ Fiduciary Activities
Effective 12/15/2019 (your FY 2019)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the County.

GASB 85 ■ Omnibus 2017
Effective 06/15/2018 (your FY 2018)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the County.

GASB 86 ■ Certain Debt Extinguishment Issues
Effective 06/15/2018 (your FY 2018)

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position. We do not expect this standard to have any significant effect on the County.

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Attachment C – Management Representations
For the December 31, 2016 Audit

Following are the written representations that we requested from management.

Board of Commissioners
County of Kalkaska

June 28, 2017

Rehmann Robson
107 S. Cass Street, Suite A
Traverse City, Michigan 49684

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of ***Kalkaska County, Michigan*** (the "County"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the general fund and each major special revenue fund of the County in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 28, 2017:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 16, 2017, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

STUART MCKINNON, CHAIRMAN
605 N. BIRCH ST • KALKASKA, MI 49646 • 231.258.3349 • smckinnon@kalkaskacounty.org

8. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All funds and activities are properly classified.
13. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
14. All components of net position and fund balance classifications have been properly reported.
15. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
16. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. Deposit and investment risks have been properly and fully disclosed.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
20. All required supplementary information is measured and presented within the prescribed guidelines.
21. We believe that the actuarial assumptions and methods used to measure other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
22. We are responsible for the fair presentation of the County's net pension liability as calculated by the Municipal Employees' Retirement System of Michigan (MERS) and related amounts. We provided MERS with complete and accurate information regarding the County's participation in the plan, and have reviewed the information provided by MERS for inclusion in the County's financial statements.

Information Provided

23. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and

   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
26. We have no knowledge of fraud or suspected fraud that affects the entity and involves:
    a. Management;
    b. Employees who have significant roles in internal control; or
    c. Others where the fraud could have a material effect on the financial statements.
27. We have no knowledge of allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
28. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
29. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
31. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
32. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
33. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
34. There are no:
    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
35. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
36. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
37. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

38. With respect to the supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Required Supplementary Information

39. With respect to the required supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Deborah Hill

Deborah Hill, County Clerk

Valerie Thornburg

Valerie Thornburg, County Treasurer

KALKASKA COUNTY, MICHIGAN

Schedule of Adjustments Passed (SOAP)

For the December 31, 2016 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
General fund / governmental activities					
Effect of prior year accounts payable over-accrual (corrected in 2016)	$ -	$ -	$ (13,320)	$ -	$ (13,320)
Unsupported debit balance in payroll deduction liability account	-	(5,533)	-	-	(5,533)
Total general fund / governmental activities	$ -	$ (5,533)	$ (13,320)	$ -	$ (18,853)
Misstatement as a percentage of total assets & deferred outflows - governmental activities	0.00%	-0.04%	-0.10%	0.00%	-0.14%