



**REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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FINANCIAL SECTION



Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 49-51 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 Kalkaska County, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements 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 October 22, 2013, on our consideration of the Kalkaska County, Michigan, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kalkaska County, Michigan, internal control over financial reporting and compliance.

Certified Public Accountants
October 22, 2013

Kalkaska County
Management's Discussion and Analysis
December 31, 2012

This section of Kalkaska County's annual financial report presents its discussion and analysis of the government's financial performance during the year ending December 31, 2012 and 2011.

Financial Highlights

The assets of Kalkaska County exceed its liabilities at the close of fiscal year 2012, by \$11,880,428. Of this amount \$7,763,624 (unassigned net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- At December 31, 2012, the County's governmental funds reported combined ending fund balances of \$4,963,144.
- At December 31, 2012, unassigned fund balance for the General Fund was \$698,304 or 11.13% of General Fund expenditures.
- Governmental fund revenues and expenditures were \$9,376,954 and \$9,264,847 respectively.
- Total long-term debt in the Governmental Activities was \$-0- at December 31, 2012.
- The overall financial status of the County improved compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County financial statements. The County basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains 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 finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the County's assets and liabilities, with the difference between the two 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 of some items that will only result in cash flows in future fiscal periods (e.g. accrued interest expense).

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

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

The government-wide financial statements can be found on pages 10-11 of this report.

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, used 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 financial 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 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, considered to be the major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the County's major fund.

The basic governmental fund financial statements can be found on page 12-15 of this report.

PROPRIETARY FUNDS. The County maintains one type of proprietary fund. 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 its delinquent taxes and the sportsplex.

The basic proprietary fund financial statements can be found on pages 16-19 of this report.

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.

The basic fiduciary fund financial statements can be found on page 20 of this report.

NOTES TO THE FINANCIAL STATEMENT. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-48 of this report.

Kalkaska County
Management's Discussion and Analysis
December 31, 2012

OTHER INFORMATION. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statement. Combining statements and schedules can be found on pages 52-63 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Kalkaska County, assets exceeded liabilities by \$11,880,428 as of December 31, 2012, compared with \$10,765,934 for the year ended December 31, 2011. A large portion of the County's net position reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that are still outstanding. 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.

The County's net position increased by \$1,114,494 during the year.

KALKASKA COUNTY
NET POSITION
DECEMBER 31, 2012 AND 2011

	2012			2011		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 7,538,304	\$ 5,043,619	\$ 12,581,923	\$ 7,401,910	\$ 4,161,314	\$ 11,563,224
Capital assets	<u>2,623,393</u>	<u>4,898,682</u>	<u>7,522,075</u>	<u>2,841,948</u>	<u>5,049,655</u>	<u>7,891,603</u>
Total assets	<u>\$ 10,161,697</u>	<u>\$ 9,942,301</u>	<u>\$ 20,103,998</u>	<u>\$ 10,243,858</u>	<u>\$ 9,210,969</u>	<u>\$ 19,454,827</u>
Long-term liabilities outstanding	\$ 751,025	\$ 3,160,000	\$3,911,025	\$ 786,172	\$ 3,595,000	\$ 4,381,172
Other liabilities	<u>1,857,078</u>	<u>1,011,935</u>	<u>2,869,013</u>	<u>2,550,873</u>	<u>1,756,848</u>	<u>4,307,721</u>
Total liabilities	<u>2,608,103</u>	<u>4,171,935</u>	<u>6,780,038</u>	<u>3,337,045</u>	<u>5,351,848</u>	<u>8,688,893</u>
Deferred Inflows of Resources						
Taxes levied intended for later periods	<u>718,082</u>	<u>725,450</u>	<u>1,443,532</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position:						
Invested in capital assets, net of related debt	2,623,393	1,303,682	3,927,075	2,841,948	1,014,655	3,856,603
Restricted	189,684	-	189,684	148,098	-	148,098
Unassigned	<u>4,022,435</u>	<u>3,741,234</u>	<u>7,763,669</u>	<u>3,916,767</u>	<u>2,844,466</u>	<u>6,761,233</u>
Total net position	<u>6,835,512</u>	<u>5,044,916</u>	<u>11,880,428</u>	<u>6,906,813</u>	<u>3,859,121</u>	<u>10,765,934</u>
Total liabilities, deferrals and net position	<u>\$ 10,161,697</u>	<u>\$ 9,942,301</u>	<u>\$ 20,103,998</u>	<u>\$ 10,243,858</u>	<u>\$ 9,210,969</u>	<u>\$ 19,454,827</u>

**Kalkaska County
Management's Discussion and Analysis
December 31, 2012**

**KALKASKA COUNTY
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012			2011		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 2,391,935	\$ 1,508,810	\$ 3,900,745	\$ 2,524,805	\$ 749,925	\$ 3,274,730
Operating grants and contributions	1,176,083	-	1,176,083	1,276,965	-	1,276,965
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	4,931,849	697,422	5,629,271	4,825,722	701,147	5,526,869
Other	838,742	7,537	846,279	864,926	34,879	899,805
Total revenues	9,338,609	2,213,769	11,552,378	9,492,418	1,485,951	10,978,369
Expenses:						
Governmental activities:						
Legislative	185,662	-	185,662	146,346	-	146,346
Judicial	1,130,033	-	1,130,033	1,159,846	-	1,159,846
General government	2,319,689	-	2,319,689	2,075,591	-	2,075,591
Public safety	3,409,253	-	3,409,253	3,723,999	-	3,723,999
Public works	86,732	-	86,732	83,480	-	83,480
Health and welfare	1,441,529	-	1,441,529	1,481,715	-	1,481,715
Recreation and culture	381,638	713,701	1,095,339	339,864	751,928	1,091,792
Other	455,374	93,032	548,406	752,703	-	752,703
Delinquent property tax		221,241	221,241	-	258,191	258,191
Total expenses	9,409,910	1,027,974	10,437,884	9,763,544	1,010,119	10,773,663
Change in net position before transfers	(71,301)	1,185,795	1,114,494	(271,126)	475,832	204,706
Transfers in (out)	-	-	-	90,951	(90,951)	-
Increase (decrease) in net position	(71,301)	1,185,795	1,114,494	(180,175)	384,881	204,706
Net position, beginning	6,906,813	3,859,121	10,765,934	7,086,988	3,474,240	10,561,228
Net position, ending	\$ 6,835,512	\$ 5,044,916	\$ 11,880,428	\$ 6,906,813	\$ 3,859,121	\$ 10,765,934

The primary reason for the increase in net assets was interest and other penalties paid on delinquent taxes in 2012. The millage for the Sportsplex Facility did not require an appropriation from other funds for the operation of the Sportsplex.

Financial Analysis of the Government's Funds

As noted earlier, Kalkaska County uses fund accounting to insure and demonstrate compliance with finance-related requirements.

Government funds. The focus of Kalkaska County's governmental funds is to provide information on near-term inflows, outflows, and balances of spend able resources. Such information is useful in assessing Kalkaska County's financing requirements. In particular, unreserved 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 December 31, 2012, Kalkaska County's governmental funds reported combined ending balances of \$4,963,144. Approximately 96% of this total constitutes unassigned fund balance, which is available for spending at Kalkaska County's discretion. The remainder of the fund balance is reserved for specific commitments.

The general fund is the chief operating fund of Kalkaska County. As of December 31, 2012, unassigned fund balance of the general fund was \$698,304.

The fund balance of Kalkaska County's general fund increased by \$10,984 during the current fiscal year.

Proprietary funds. Kalkaska County's proprietary funds 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, 2012 were \$3,741,234. With a majority of the net position in the Tax Payment Fund of \$3,623,752.

General Fund Budgetary Highlights

Significant differences between the original budget and the final amended budget of the major funds can be briefly summarized as follows:

Revenue:

Property taxes were originally budgeted planning on a 3% reduction of Taxable Value. The taxable valuation for 2012 was actually only down just under 1%.

Expense:

County Government activity decreased by	\$ 41,411
Public Safety activity decreased by	\$ 214,426
Public Works activity increased by	\$ 156
Health and Welfare decreased by	\$ 25,875
Community and Economic Development decreased by	\$ 4,299
Other Appropriation activity increased by	\$ 49,682
Appropriation to other Funds activity decreased by	\$ 53,497

**Kalkaska County
Management's Discussion and Analysis
December 31, 2012**

Capital Asset and Debt Administration

Capital assets. Kalkaska County's investment in capital assets for its governmental and business type activities as of December 31, 2012, amount to \$7,522,075 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

1. Two police vehicles	\$66,308.00
2. Commission on Aging equipment	\$11,532.00
3 Library furniture/equipment	\$ 3,635.00
4. Heating and Cooling Civic Center	\$ 1,000.00

**KALKASKA COUNTY
CAPITAL ASSETS (net of accumulated depreciation)
DECEMBER 31, 2012**

	Governmental Activities	Business-type Activities	Total
Land	\$ 281,327	\$ -	\$ 281,327
Buildings	1,551,761	4,875,273	6,427,034
Land Improvements	116,618	-	116,618
Machinery and equipment	673,687	23,409	697,096
	<u>\$ 2,623,393</u>	<u>\$ 4,898,682</u>	<u>\$ 7,522,075</u>

Long-term debt. At December 31, 2012, Kalkaska County had total bonded debt outstanding of \$3,513,707.

**KALKASKA COUNTY
OUTSTANDING DEBT
DECEMBER 31, 2012**

	Governmental Activities	Business-type Activities	Total
General obligation	\$ -	\$ 3,513,707	\$ 3,513,707

Kalkaska County's total debt decreased by \$428,386 during the year ended December 31, 2012.

Economic Factors and Next Year's Budgets and Rates

- Taxable SEV with a small decline in 2013
- Declining revenue from Other Units of Governments
- The high cost of energy; heat; electric and gasoline
- The increased cost of fringe benefits on wages; health insurance and retirement costs
- The County anticipates a steady or small decline of revenue in 2013

All of these factors were considered in preparing Kalkaska County's budget for the 2013 fiscal year.

Request for Information

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

**KALKASKA COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Cash	\$ 4,423,776	\$ 2,353,366	\$ 6,777,142	\$ 509,670
Receivables:				
Taxes	1,129,030	2,190,859	3,319,889	-
Accounts	963,063	-	963,063	475,627
Interest	-	1	1	-
Due from State	170,448	-	170,448	-
Due from other government units	9,486	-	9,486	-
Due from other funds	680,307	425,360	1,105,667	-
Inventories	-	2,009	2,009	404,346
Prepaid expenses	162,194	72,024	234,218	60,865
Capital assets (net of accumulated depreciation)				
Land	281,327	-	281,327	-
Other capital assets	2,342,066	4,898,682	7,240,748	17,784,220
TOTAL ASSETS	10,161,697	9,942,301	20,103,998	19,234,728
LIABILITIES:				
Current Liabilities:				
Accounts payable	250,265	14,725	264,990	214,515
Checks written in excess of deposits	25,216	-	25,216	-
Current portion of bonds and interest payable	-	489,475	489,475	-
Accrued liabilities	162,466	24,382	186,848	23,879
Due to other governmental units	15,733	-	15,733	583
Due to other funds	624,864	483,353	1,108,217	-
Unearned revenues	778,534	-	778,534	-
Total Current Liabilities	1,857,078	1,011,935	2,869,013	238,977
Non-Current liabilities:				
Bonds payable	-	3,160,000	3,160,000	-
Sick and vacation payable	217,102	-	217,102	117,731
OPEB obligation liability	533,923	-	533,923	939,226
Total Non-Current Liabilities	751,025	3,160,000	3,911,025	1,056,957
TOTAL LIABILITIES	2,608,103	4,171,935	6,780,038	1,295,934
Deferred Inflows of Resources:				
Taxes levied intended for later periods	718,082	725,450	1,443,532	-
NET POSITION:				
Invested in capital assets, net of related debt	2,623,393	1,303,682	3,927,075	17,784,220
Net Position:				
Non-spendable	-	-	162,194	-
Restricted	189,684	-	27,490	154,574
Unassigned	4,022,435	3,741,234	7,763,624	-
TOTAL NET POSITION	\$ 6,835,512	\$ 5,044,916	\$ 11,880,428	\$ 17,938,794

The accompanying notes are an integral part of these statements.

**KALKASKA COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Legislative	\$ 185,662	\$ -	\$ -	\$ -
Judicial	1,130,033	528,689	457,797	-
General Government	2,319,689	347,622	135,055	-
Public Safety	3,409,253	770,270	433,847	-
Public Works	86,732	-	-	-
Health and Welfare	1,441,529	599,569	139,616	-
Recreation and culture	381,638	145,785	9,768	-
Other	455,374	-	-	-
Total governmental activities	9,409,910	2,391,935	1,176,083	-
Business-type activities:				
Tax payment	221,241	1,196,030	-	-
Sportsplex	713,701	312,780	-	-
Total business-type activities	934,942	1,508,810	-	-
Total primary government	\$ 10,344,852	\$ 3,900,745	\$ 1,176,083	\$ -
Component Unit:				
Road Commission	\$ 4,497,666	\$ 81,334	\$ 3,156,921	\$ 2,213,192

General Revenues:
Property Taxes
State Shared Revenue
Unrestricted investment earnings
Rents
Miscellaneous revenues
Gain (loss) on disposal of assets
Transfers

Total general revenues and transfers

Change in net position

Net position – beginning

Net position – ending

The accompanying notes are an integral part of these statements.

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
\$ (185,662)	\$ -	\$ (185,662)	\$ -
(143,547)	-	(143,547)	-
(1,837,012)	-	(1,837,012)	-
(2,205,136)	-	(2,205,136)	-
(86,732)	-	(86,732)	-
(702,344)	-	(702,344)	-
(226,085)	-	(226,085)	-
(455,374)	-	(455,374)	-
<u>(5,841,892)</u>	<u>-</u>	<u>(5,841,892)</u>	<u>-</u>
-	974,789	974,789	-
<u>-</u>	<u>(400,921)</u>	<u>(400,921)</u>	<u>-</u>
-	573,868	573,868	-
<u>(5,841,892)</u>	<u>\$ 573,868</u>	<u>\$ (5,268,024)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 953,781</u>
\$ 4,931,849	\$ 697,422	\$ 5,629,271	\$ -
432,336	-	432,336	-
30,127	7,537	37,664	-
160,796	-	160,796	-
253,828	(93,032)	160,796	-
(38,345)	-	(38,345)	17,450
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,770,591</u>	<u>611,927</u>	<u>6,382,518</u>	<u>17,450</u>
(71,301)	1,185,795	1,114,494	971,231
<u>6,906,813</u>	<u>3,859,121</u>	<u>10,765,934</u>	<u>16,967,563</u>
<u>\$ 6,835,512</u>	<u>\$ 5,044,916</u>	<u>\$ 11,880,428</u>	<u>\$ 17,938,794</u>

**KALKASKA COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Housing Fund	Commission on Aging Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 487,436	\$ 56,807	\$ 670,474	\$ 3,209,059	\$ 4,423,776
Receivables:					
Taxes	410,948	-	359,041	359,041	1,129,030
Accounts	82,676	778,424	-	101,963	963,063
Interest	-	-	-	-	-
Due from State	86,217	-	7,128	77,103	170,448
Due from other government units	9,486	-	-	-	9,486
Due from other funds	531,343	-	10,656	138,308	680,307
Prepaid expenses	139,107	-	-	23,087	162,194
	<u>\$ 1,747,213</u>	<u>\$ 835,231</u>	<u>\$ 1,047,299</u>	<u>\$ 3,908,561</u>	<u>\$ 7,538,304</u>
LIABILITIES, FUND EQUITY, & DEFERRED INFLOWS OF RESOURCES					
LIABILITIES:					
Accounts payable	\$ 211,296	\$ 599	\$ -	\$ 38,370	\$ 250,265
Checks written in excess of deposits	-	-	-	25,216	25,216
Accrued liabilities	120,559	-	-	41,907	162,466
Due to other funds	534,679	-	-	90,185	624,864
Due to other governmental units	15,733	-	-	-	15,733
Unearned revenue	-	778,534	-	-	778,534
TOTAL LIABILITIES	<u>882,267</u>	<u>779,133</u>	<u>-</u>	<u>195,678</u>	<u>1,857,078</u>
DEFERRED INFLOWS OF RESOURCES:					
Taxes levied intended for later period	-	-	359,041	359,041	718,082
FUND EQUITY:					
Fund balances:					
Non-spendable	139,107	-	-	23,087	162,194
Restricted	27,490	-	-	3,330,755	3,358,245
Committed	-	-	-	-	-
Assigned	45	-	-	-	45
Unassigned	698,304	56,098	688,258	-	1,442,660
TOTAL FUND EQUITY	<u>864,946</u>	<u>56,098</u>	<u>688,258</u>	<u>3,353,842</u>	<u>4,963,144</u>
	<u>\$ 1,747,213</u>	<u>\$ 835,231</u>	<u>\$ 1,047,299</u>	<u>\$ 3,908,561</u>	<u>\$ 7,538,304</u>

The accompanying notes are an integral part of these statements.

**KALKASKA COUNTY
RECONCILIATION OF TOTAL GOVERNMENT FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

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

Total Governmental Fund Balances	\$	4,963,144
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Capital assets		10,561,554
Accumulated depreciation		(7,938,161)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Compensated absences payable		(217,102)
Post-retirement benefits payable		(533,923)
		(751,025)
Net Position of Governmental Activities	\$	6,835,512

The accompanying notes are an integral part of these statements.

KALKASKA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Housing Fund	Commission on Aging Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 4,196,774	\$ -	\$ 367,603	\$ 367,472	\$ 4,931,849
Licenses and permits	42,782	-	-	153,988	196,770
Federal grants	74,473	17,151	43,459	174,998	310,081
State grants	920,574	-	-	276,671	1,197,245
Other governmental revenue	-	-	-	104,093	104,093
Charges for services	858,137	-	415,125	690,799	1,964,061
Fines and forfeitures	4,092	-	-	179,442	183,534
Interest earned	7,349	63	1,067	16,865	25,344
Rents received	127,753	-	-	37,827	165,580
Other	165,649	18,239	-	114,509	298,397
TOTAL REVENUES	6,397,583	35,453	827,254	2,116,664	9,376,954
EXPENDITURES:					
Current:					
Legislative	185,662	-	-	-	185,662
Judicial	854,874	-	-	241,556	1,096,430
General government	1,804,295	-	-	398,061	2,202,356
Public safety	2,538,826	-	-	881,728	3,420,554
Public works	86,732	-	-	-	86,732
Health and welfare	348,542	5,565	760,874	329,142	1,444,123
Recreation & cultural	-	-	-	373,616	373,616
Other	455,374	-	-	-	455,374
TOTAL EXPENDITURES	6,274,305	5,565	760,874	2,224,103	9,264,847
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	123,278	29,888	66,380	(107,439)	112,107

	General	Housing Fund	Commission on Aging Fund	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES):					
Operating transfers in	137,673	-	-	249,967	387,640
Operating transfers (out)	(249,967)	-	-	(137,673)	(387,640)
 TOTAL OTHER FINANCING SOURCES (USES)	 (112,294)	 -	 -	 112,294	 -
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES					
	10,984	29,888	66,380	4,855	112,107
FUND BALANCE, beginning	853,962	26,210	621,878	3,348,987	4,851,037
FUND BALANCE, ending	<u>\$ 864,946</u>	<u>\$ 56,098</u>	<u>\$ 688,258</u>	<u>\$ 3,353,842</u>	<u>\$ 4,963,144</u>

The accompanying notes are an integral part of these statements.

KALKASKA COUNTY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Net change in fund balance – total governmental funds	\$	112,107
<p>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.</p>		
Capital outlay recorded as a capital expense		192,453
Depreciation recorded as an expense		(372,663)
Basis of assets disposed		(38,345)
<p>In the Statement of Activities, certain vacation and sick time benefits are measured by amounts earned during the year. In the Governmental funds, however, expenditures for these items are measured by essentially the amounts actually paid. The current year adjustment included in the statement of activities is:</p>		
		(37,533)
<p>In the statement of activities, post retirement benefits are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by essentially the amounts actually paid. The current year adjustment included in the statement of activities is:</p>		
		72,680
Change in net position of governmental activities	\$	(71,301)

The accompanying notes are an integral part of these statements.

**KALKASKA COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	Tax Payment	Sportsplex	Total (Memorandum Only)
ASSETS			
Cash	\$ 1,752,388	\$ 600,978	\$ 2,353,366
Receivables:			
Taxes	1,496,485	694,374	2,190,859
Accounts	-	-	-
Interest	1	-	1
Due from other funds	425,360	-	425,360
Inventories	-	2,009	2,009
Prepaid expenses	70,015	2,009	72,024
Buildings & improvements	-	6,661,782	6,661,782
Machinery & equipment	-	273,044	273,044
Accumulated depreciation	-	(2,036,144)	(2,036,144)
	<u>\$ 3,744,249</u>	<u>\$ 6,198,052</u>	<u>\$ 9,942,301</u>
LIABILITIES, DEFERRALS & FUND EQUITY			
Liabilities:			
Accounts payable	\$ -	\$ 14,725	\$ 14,725
Accrued expenses	-	6,407	6,407
Accrued interest payable	-	17,975	17,975
Due to other funds	66,022	417,331	483,353
Bonds payable	54,475	3,595,000	3,649,475
	<u>120,497</u>	<u>4,051,438</u>	<u>4,171,935</u>
Deferred Inflows of Resources			
Taxes levied intended for later period	-	725,450	725,450
Fund Equity:			
Investment in capital assets, net of related debt	-	1,303,682	1,303,682
Retained earnings:			
Unreserved	3,623,752	117,482	3,741,234
	<u>3,623,752</u>	<u>1,421,164</u>	<u>5,044,916</u>
TOTAL FUND EQUITY	<u>3,623,752</u>	<u>1,421,164</u>	<u>5,044,916</u>
TOTAL LIABILITIES, DEFERRALS & FUND EQUITY	<u>\$ 3,744,249</u>	<u>\$ 6,198,052</u>	<u>\$ 9,942,301</u>

The accompanying notes are an integral part of these statements.

KALKASKA COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Tax Payment</u>	<u>Sportsplex</u>	<u>Total (Memorandum Only)</u>
OPERATING REVENUES:			
Charges for services	\$ 217,969	\$ 312,780	\$ 530,749
Interest and penalties on taxes	978,061	-	978,061
	<u>1,196,030</u>	<u>312,780</u>	<u>1,508,810</u>
OPERATING EXPENSES:			
Salary expense	-	172,072	172,072
Fringe benefit expense	-	55,291	55,291
Other	214,166	237,553	451,719
Depreciation	-	150,973	150,973
	<u>214,166</u>	<u>615,889</u>	<u>830,055</u>
OPERATING INCOME (LOSS)	<u>981,864</u>	<u>(303,109)</u>	<u>678,755</u>
NON-OPERATING REVENUES (EXPENSES):			
Taxes	-	697,422	697,422
Interest income	7,320	217	7,537
Interest expense	(7,075)	(97,812)	(104,887)
Other	-	(93,032)	(93,032)
	<u>245</u>	<u>506,795</u>	<u>507,040</u>
TRANSFERS			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	982,109	203,686	1,185,795
RETAINED EARNINGS, beginning	<u>2,641,643</u>	<u>1,217,478</u>	<u>3,859,121</u>
RETAINED EARNINGS, ending	<u>\$ 3,623,752</u>	<u>\$ 1,421,164</u>	<u>\$ 5,044,916</u>

The accompanying notes are an integral part of these statements.

**KALKASKA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Tax Payment</u>	<u>Sportsplex</u>	<u>Total (Memorandum Only)</u>
Cash Flow From Operating Activities:			
Cash received from customers	\$ 833,212	\$ 322,984	\$ 1,156,196
Cash payments for goods and services	(183,432)	(146,632)	(330,064)
Cash received from penalties and interest on delinquent taxes	-	-	-
Cash payments to employees for services/fringe benefits	-	(227,502)	(227,502)
	<u>649,780</u>	<u>(51,150)</u>	<u>598,630</u>
Net Cash Provided By (Used In) Operating Activities			
Cash Flows From Non-capital Financing Activities:			
Local tax levy received	-	697,422	697,422
Payments received (paid) to other funds	(6,647)	16,929	10,282
Transfer in (out)	-	-	-
	<u>(6,647)</u>	<u>714,351</u>	<u>707,704</u>
Net Cash Provided By Noncapital Financing Activities			
Cash Flows From Capital And Related Financing Activities:			
Acquisition of capital assets	-	-	-
Proceeds from bonds	1,100,000	-	1,100,000
Principal paid on bonds	(1,090,525)	(440,000)	(1,530,525)
Interest paid on bonds	(7,075)	(107,916)	(114,991)
	<u>2,400</u>	<u>(547,916)</u>	<u>(545,516)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities			
Cash Flows From Investing Activities:			
Interest on investments	7,320	(92,815)	(85,495)
	<u>652,853</u>	<u>22,470</u>	<u>675,323</u>
NET INCREASE IN CASH			
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,099,535</u>	<u>578,508</u>	<u>1,678,043</u>
CASH AND CASH EQUIVALENTS, ending of year	<u>\$ 1,752,388</u>	<u>\$ 600,978</u>	<u>\$ 2,353,366</u>

The accompanying notes are an integral part of these statements.

**KALKASKA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

	<u>Tax Payment</u>	<u>Sportsplex</u>	<u>Total (Memorandum Only)</u>
Reconciliation Of Net Operating Income			
To Net Cash Provided By Operating			
Activities:			
Net operating income (loss)	\$ 981,864	\$ (303,109)	\$ 678,755
Adjustments To Reconcile Net Operating			
Income (Loss) To Net Cash Provided			
By Operating Activities:			
Depreciation	-	150,973	150,973
(Increase) decrease in:			
Receivables	(362,818)	12,952	(349,866)
Prepaid expenses	30,734	92,628	123,362
Increase (decrease) in:			
Accounts payable	-	(1,707)	(1,707)
Accrued liabilities	-	(139)	(139)
Deferred revenue	-	(2,748)	(2,748)
Total adjustments	<u>(332,084)</u>	<u>251,959</u>	<u>(80,125)</u>
Net Cash Provided By (Used In)			
Operating Activities	<u>\$ 649,780</u>	<u>\$ (51,150)</u>	<u>\$ 598,630</u>

The accompanying notes are an integral part of these statements.

**KALKASKA COUNTY
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

ASSETS

Cash	\$	581,786
Accounts receivable		991
Due from state		683
Due from other funds		<u>2,550</u>
 TOTAL ASSETS	 \$	 <u>586,010</u>

LIABILITIES

Due to other government units	\$	54,898
Undistributed collections		442,849
Other liabilities		<u>88,263</u>
 TOTAL LIABILITIES	 \$	 <u>586,010</u>

The accompanying notes are an integral part of these statements.

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the County.

DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES

The County of was organized in 1871 and covers an area of approximately 576 square miles with the County seat located in Kalkaska, Michigan. The County operates under an elected Board of Commissioners of seven (7) members and provides services, assistance and care to its more than 16,500 residents, primarily from the operations of its General Fund 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 as applies to government 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

The accompanying financial statements present the only the primary government of the County and entities for which the government is considered to be financially accountable. Discretely presented component units have not been included in the financial presentation.

The Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" and the State of Michigan Department of Treasury established criteria for governmental organizations to be considered to be part of the County for financial reporting purposes. The criteria included oversight responsibility, fiscal dependency and whether the statements would be misleading if data were not included.

The financial statements of certain governmental organizations are not included in the financial statements of the County: (1) Education services which are provided to citizens through the several local school districts that are separate governmental entities. The Transportation Authority is considered a separate reporting entity and therefore not included in this report.

DISCRETELY PRESENTED COMPONENT UNITS

The Kalkaska County Road Commission is considered a component unit of the County. It's financial statement is discretely presented in the County combined financial statements as required by accounting principles generally accepted in the United States of America revised under GASB 14. The road commission data is shown in the column entitled road commission and is discretely presented to emphasize that the road commission has its own board, elected by the voters of the County, and acts, under Michigan Statue as a separate board. Complete financial statements of the Road Commission Component Unit can be obtained directly from the Road Commission office at 1049 Island Lake Rd., Kalkaska, Michigan 49646.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

JOINTLY GOVERNED ORGANIZATIONS

The North Country Community Mental Health Authority consists of the counties of Otsego, Emmet, Charlevoix, Cheboygan, and Kalkaska. Financial records for this Authority are maintained by the mental health authority and are audited separately from any of the member counties. A copy of a financial statement and audit report would be available at the Authority office located at 1 MacDonald Drive, Suite A, Petoskey, Michigan 49770.

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. For 2012 Kalkaska County's local match was \$46,406. Their financial statements are not required, under GASB No. 14, to be included in the Kalkaska County report.

The 46th Judicial Trial 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, 2012 the funding was as follows:

	<u>Circuit Division</u>
Crawford County	44.55%
Kalkaska County	24.53%
Otsego County	30.92%

For the year ended December 31, 2012 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 \$20,237 for the 46th Circuit Trial court in 2012.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 units. 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 certain legally separate component units 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. Indirect expenses are charged based upon a countywide cost allocation plan, which allocates costs based upon the number of full time equivalents, number of transactions, and other pertinent information. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the 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 funds and major 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 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. After March 1 of the year for which they are levied, the Delinquent Tax Revolving Fund pays the County for any outstanding taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 of the end of the current fiscal period. Grant revenues are considered to be available when all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so 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 County.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The government reports the following major governmental funds:

GENERAL FUND This fund is the County's primary general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

HOUSING FUND This fund 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.

REVENUE SHARING RESERVE FUND This fund was established by the Michigan Treasury as a means to smooth funding for governmental units. This fund annually appropriates an amount equal to the State of Michigan revenue sharing to be used by the general fund.

The County reports the following major enterprise funds:

SPORTS COMPLEX FUND – This fund is operating an ice arena/swimming pool facility.

DELINQUENT PROPERTY TAX FUND – This 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.

Additionally, the County reports the following fund types:

SPECIAL REVENUE FUNDS – These funds are used to account for specific revenues derived primarily from specific sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

CAPITAL PROJECTS FUNDS – The Capital Projects Funds are used to account for the acquisition or construction of major capital facilities other than those financed by enterprise funds or special assessments.

AGENCY FUNDS – are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidelines.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Proprietary funds distinguish operating revenues and expenses from non-operating 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 interest and penalties on delinquent taxes and charges for services provided. The principal operating revenues of the County's internal service funds include the cost of services (including claims), administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

BANK DEPOSITS AND INVESTMENTS – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are state at fair market value.

The County reports its investments in accordance with GASB Statements No. 40, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the county intends to hold the investment until maturity.

State statutes authorize the county to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The county is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

RECEIVABLES AND PAYABLES – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

CURRENT PROPERTY TAX LEVY – The County property tax is levied as of July 1 on the state equalized valuation of property located in the County as of the preceding December 31 and attach an enforceable lien on the property.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The 2011 taxable value of Kalkaska County amounted to \$725,144,938 and the 2012 taxable value was \$718,082,296. The County levied 5.4562 mills for County operating purposes, .5000 mills for Commission on Aging operations, .25 mills for animal control and recycling operations, .25 mills for the library, .71 mills for Debt Service operations, and .25 mills for Sportsplex operations. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

TAXES RECEIVABLE – DELINQUENT – The taxes receivable of \$1,496,485 which are recorded in the Enterprise 100% Tax Payment Fund, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Kalkaska County by the County's 100% Tax Payment Fund.

INVENTORIES AND PREPAID ITEMS – Inventories consisting of supplies of \$2,009 and prepaid expenses of \$234,218, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at cost which approximates market.

CAPITAL ASSETS – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the activities column in the government-wide financial statements as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. These infrastructure assets are the responsibility of the Kalkaska County Road Commission, and they have reported the infrastructure in their statement of net position. The Road Commission has retroactively capitalized the major infrastructure assets as of December 31, 2012, as permitted by GASB 34.

PRIMARY GOVERNMENT – Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	8 to 50 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

DISCRETE COMPONENT UNIT – Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The deprecation rates are designed to amortize the cost of the asset over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Road	8 to 30 years
Infrastructure – Bridges	12 to 50 years

DEFERRED REVENUE – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

LONG-TERM OBLIGATIONS – In the government-wide financial statements and proprietary fund type statements, the 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. For new bond issuances after the implementation of GASB Statement No. 34, material bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 used is reported as other financing sources. Premiums received 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.

ACCRUED VACATION AND SICK – In accordance with contracts negotiated with the various employee groups employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FUND EQUITY – Fund balances are now reported in the following classifications: *Nonspendable*, includes 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*, includes amounts that are restricted to specific purposes, or imposed by law through constitutional provisions or enabling legislation. *Committed*, are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners. *Assigned*, amounts that are constrained by the fiscal officer to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund. It represents amounts that have not been restricted, committed or assigned to a specific purpose. The County would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

IMPLEMENTATION OF NEW STANDARD - The County adopted the provisions of GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the current year. While the classification of certain financial elements in the financial statements were revised, the implementation of this standard had no effect on net position or fund balance.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual operating budgets are adopted by the County Commission for the General and Special Revenue Funds in accordance with Public Act 621 of 1978.

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. During the month of July, budget worksheets, which list their last year's budget along with their expenditures for the last six months, are sent to each department. Each department prepares their budget and returns it to the County Controller. The Controller totals and puts all the budgets in order and then turns the budgets over to the Commissioners. Then, the respective committees, which are each made up of three Commissioners, meet with the various department heads to discuss any changes to their particular budget.
- b. Public hearings are conducted at the County Building to obtain taxpayer comments.
- c. Prior to December 31st, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
- d. Budget amendments are made by the County Commission as the need arises during the year.
- e. 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.
- f. Budget appropriations lapse at year end.
- g. 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.

The budgets for some funds are administered and amended throughout the year as necessary by separate boards or authorities other than the County Commission.

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – continued

B. Excess of expenditures over appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the County's actual expenditures and budget expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the County for these budgetary funds were adopted to the activity level.

During the year ended December 31, 2012, the County incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Activity	Total Appropriations	Amount of Expenditures	Budget Variance
<u>General Fund:</u>			
Public Safety	\$ 2,532,503	\$ 2,538,826	\$ (6,323)
Other	454,524	455,374	(850)
 <u>Discrete Component Unit:</u>			
Primary Road			
Routine and Preventative Maintenance	\$ 1,250,000	\$ 1,333,026	\$ (83,026)
Primary Road Structure			
Preservation/Structural Improvements	1,100,000	1,179,328	(79,328)
Net Equipment Expense	(30,000)	258,918	(288,918)
Net Administrative Expense	447,400	510,918	(63,518)

C. Deficit Fund Balance

The following fund had a negative fund balance at December 31, 2012:

Police Hiring Supplement Fund	\$ (2,173)
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**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH AND INVESTMENTS

The captions on the accompanying balance sheet related to cash and investments are as follows:

	<u>Imprest Cash</u>	<u>Cash/Checking And Savings</u>	<u>Certificates of Deposit</u>	<u>Total</u>
Primary Government				
Governmental Activities	\$ 7,946	\$ 4,233,097	\$ 182,733	\$ 4,423,776
Business-type Activities	1,479	2,351,887	-	2,353,366
Agency Funds	-	550,712	31,074	581,786
	<u>9,425</u>	<u>7,135,696</u>	<u>213,807</u>	<u>7,358,928</u>
 Total Primary Government	 <u>\$ 9,425</u>	 <u>\$ 7,135,696</u>	 <u>\$ 213,807</u>	 <u>\$ 7,358,928</u>
 Discrete Component Unit:				
Road Commission	<u>\$ 250</u>	<u>\$ 509,420</u>	<u>\$ -</u>	<u>\$ 509,490</u>

Interest Rate Risk – The County will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Also, the County will invest operating funds primarily in shorter-term securities, money market funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with its policy.

Credit Risk - State statutes authorize the county to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The County is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers’ acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Concentration of Credit Risk – With the exception of US Treasury securities and authorized pools, no more than 25 percent of the total investment portfolio will be invested in a single security type or with a single financial institution.

Deposits

Primary Government - At year-end, the carrying amount of the County’s deposits was \$7,358,928 and the bank balance of \$7,488,719 was classified as to risk as follows:

Insured	\$ 463,669
Uninsured – Uncollateralized	<u>7,025,050</u>
 Total	 <u>\$ 7,488,719</u>

Discrete Component Unit – The bank balance of the Road Commission’s deposits is \$542,671, of which \$250,000 is covered by Federal Depository insurance.

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: RECEIVABLES/UNEARNED REVENUE

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Housing Fund</u>	<u>Commission On Aging Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Taxes receivable	\$ 410,948	\$ -	\$ 359,041	\$ 359,041	\$ 1,129,030
Accounts receivable	82,676	-	-	101,963	184,639
Housing Fund Mortgages	-	778,424	-	-	778,424
Intergovernmental	95,703	-	7,128	77,103	179,934
	<u>\$ 589,327</u>	<u>\$ 778,424</u>	<u>\$ 366,169</u>	<u>\$ 538,107</u>	<u>\$ 2,272,027</u>

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	<u>Unearned</u>
Housing Fund Mortgages	<u>\$ 778,424</u>

Deferred Inflow of Resources:

Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

	<u>Deferred Inflow</u>
Property Taxes	<u>\$ 718,082</u>

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS

A summary of the changes in the capital assets of the primary government follows:

Primary Government	Balance 01/01/12	Increases	Decreases/ Transfers	Balance 12/31/12
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 281,327	\$ -	\$ -	\$ 281,327
Total capital assets not being depreciated	281,327	-	-	281,327
Capital assets, being depreciated				
Buildings	6,433,452	1,957	-	6,435,409
Land improvements	277,912	25,868	-	303,780
Machinery & equipment	3,474,836	164,628	98,426	3,541,038
Total capital assets being depreciated	10,186,200	192,453	98,426	10,280,227
Less accumulated depreciation for:				
Buildings	4,726,275	157,373	-	4,883,648
Land improvements	178,351	8,811	-	187,162
Machinery & equipment	2,720,953	206,479	60,081	2,867,351
Total accumulated depreciation	7,625,579	372,663	60,081	7,938,161
Total capital assets, being depreciated, net	2,560,621	(180,210)	(38,345)	2,342,066
Governmental activities capital assets, net	<u>\$ 2,841,948</u>	<u>\$ (180,210)</u>	<u>\$ (38,345)</u>	<u>\$ 2,623,393</u>

A summary of the changes in the capital assets of the business-type activities follows:

Sportsplex	Balance 01/01/12	Increases	Decreases	Balance 12/31/12
Business-type activities:				
Capital assets, being depreciated				
Buildings & improvements	\$ 6,661,782	\$ -	\$ -	\$ 6,661,782
Furniture, fixtures & equipment	273,044	-	-	273,044
Total capital assets being depreciated	6,934,826	-	-	6,934,826
Less accumulated depreciation for:				
Buildings & improvements	1,644,093	142,416	-	1,786,509
Machinery & equipment	241,078	8,557	-	249,635
Total accumulated depreciation	1,885,171	150,973	-	2,036,144
Business-type activities capital assets, net	<u>\$ 5,049,655</u>	<u>\$ (150,973)</u>	<u>\$ -</u>	<u>\$ 4,898,682</u>

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS - continued

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

Governmental Activities:	
Judicial	\$ 33,603
General government	212,193
Public Safety	118,806
Recreation and culture	<u>8,061</u>
 Total depreciation expense – governmental activities	 <u><u>\$ 372,663</u></u>
 Business-type activities:	
Sportsplex	<u><u>\$ 150,973</u></u>

A summary of the changes in the capital assets of the Road Commission follows:

Road Commission	<u>Balance</u> 01/01/12	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Balance</u> 12/31/12
Capital assets, not being depreciated				
Land and Improvements	\$ 95,964	\$ -	\$ 3,500	\$ 92,464
Infrastructure Land Improvements *	<u>4,114,483</u>	<u>26,897</u>	<u>-</u>	<u>4,141,380</u>
Total capital assets not being depreciated	<u>4,210,447</u>	<u>26,897</u>	<u>3,500</u>	<u>4,233,844</u>
Capital assets, being depreciated				
Buildings and Improvements	606,300	5,911	-	612,211
Road Equipment *	3,973,184	261,681	296,448	3,938,417
Shop Equipment	61,525	-	-	61,525
Office Equipment	64,775	-	-	64,775
Infrastructure – Bridges	1,397,150	1,339,133	25,991	2,710,292
Infrastructure – Roads *	<u>20,010,515</u>	<u>911,535</u>	<u>377,839</u>	<u>220,544,211</u>
Total capital assets being depreciated	<u>26,113,449</u>	<u>2,518,260</u>	<u>700,278</u>	<u>27,931,431</u>
Less accumulated depreciation for:				
Buildings and Improvements	550,040	13,570	-	563,610
Road Equipment *	3,644,003	170,961	296,549	3,518,415
Shop Equipment	40,139	5,734	-	45,873
Office Equipment	57,658	2,452	-	60,110
Infrastructure – Bridges	506,200	39,551	866	544,885
Infrastructure – Roads *	<u>9,031,327</u>	<u>994,674</u>	<u>377,839</u>	<u>9,648,162</u>
Total accumulated depreciation	<u>13,829,367</u>	<u>1,226,942</u>	<u>675,254</u>	<u>14,381,055</u>
Total capital assets, being depreciated, net	<u>12,284,082</u>	<u>1,291,318</u>	<u>(25,024)</u>	<u>13,550,376</u>
Governmental activities capital assets, net	<u><u>\$ 16,494,529</u></u>	<u><u>\$ 1,318,215</u></u>	<u><u>\$ (28,524)</u></u>	<u><u>\$ 17,784,220</u></u>

*There was a restatement of the beginning balance. See note 15

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

Following is a description of the basic types of inter-fund transactions and the related accounting policy:

Transactions for services rendered or facilities provided; these transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them; these transactions are recorded as transfers in and transfers out.

Interfund transactions are not eliminated for financial presentation purposes.

The amounts of inter-fund receivables and payables, and long-term advances are as follows:

<u>Fund</u>	<u>Inter-fund/ Advances Receivable</u>	<u>Fund</u>	<u>Inter-fund Advances Payable</u>
General Fund	\$ 531,343	Sportsplex	\$ 417,331
Agency Fund	2,550	Tax Payment Fund	66,022
County Library Building Fund	5,139	911 Central Dispatch Fund	20,000
Building Improvement Fund	27,073	General Fund	534,679
Commission on Aging Fund	10,656	County Building Fund	67,500
911 Central Dispatch Fund	87,428	County Library Fund	<u>2,685</u>
ROD Equip/Tech. Fund	164		
Friend of the Court Fund	18,504		
Tax Payment Fund	<u>425,360</u>		
	<u>\$ 1,108,217</u>		<u>\$ 1,108,217</u>

Interfund transfers:

	<u>Operating Transfer In</u>	<u>Operating Transfer Out</u>	<u>Total</u>
General fund	\$ 137,673	\$ 249,967	\$ (112,294)
Other governmental funds	<u>249,967</u>	<u>137,673</u>	<u>112,294</u>
	<u>\$ 387,640</u>	<u>\$ 387,640</u>	<u>\$ -</u>

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 7: LONG-TERM DEBT

Governmental activities – Following is a summary of information concerning the County’s long-term debt:

Outstanding debt description and change in long-term debt:

	Beginning Balance	Additions	Reductions	Ending Balance
Termination benefits	\$ 179,569	\$ 37,533	\$ -	\$ 217,102

Resources from the General Fund are generally used to liquidate termination benefits.

Business-type activities - Following is a summary of information concerning the County’s long-term debt:

General obligation debts and other long-term obligations currently outstanding are as follows:

Refunding Bonds were issued by the county to refinance Sports Complex Bonds, which were issued by the County to provide for acquiring, constructing, furnishing and equipping a new recreational facility/sports complex.

\$3,595,000 of 2012 Refunding Bonds, due in annual installments of \$400,000 to \$495,000 through April, 2020; interest at 2.0% to 3.603%, secured by the full faith and credit of the County. \$ 3,595,000

The annual requirements to amortize long-term obligations outstanding as of December 31, 2012 including interest of \$470,394 are as follows:

	Principal amount	Interest Amount	Total
Year ending June 30:			
2013	\$ 435,000	\$ 99,166	\$ 534,166
2014	425,000	90,035	515,035
2015	415,000	79,807	494,807
2016	400,000	68,985	468,985
2017	450,000	56,298	506,298
2018 – 2020	1,470,000	76,103	1,546,103
	<u>\$ 3,595,000</u>	<u>\$ 470,394</u>	<u>\$ 4,065,394</u>

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 7: LONG-TERM DEBT - continued

The following is a summary of the changes in liabilities reported in the long-term debt of the business-type activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Business-type Activities:					
Bonds payable:					
Refunding	\$ 4,035,000	\$ -	\$ (440,000)	\$ 3,595,000	\$ 435,000
Issuance costs	(92,907)	-	11,614	(81,293)	-
Total bonds payable	<u>\$ 3,942,093</u>	<u>\$ -</u>	<u>\$ (428,386)</u>	<u>\$ 3,513,707</u>	<u>\$ 435,000</u>

Discrete Component Unit: – Following is a summary of information concerning the Road Commission’s changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Vested employee benefits – Sick leave benefits	\$ 100,342	\$ (13,268)	\$ 87,074	\$ -
Vested employee benefits – Vacation	35,623	(4,966)	30,657	30,657
	<u>\$ 135,965</u>	<u>\$ (18,234)</u>	<u>\$ 117,731</u>	<u>\$ 30,657</u>

NOTE 8 – NOTE PAYABLE

At December 31, 2012 the County has outstanding a \$1,000,000 revenue note (general obligation limited tax note) dated May 30, 2012. The note, which has an interest rate of 0.90%, matures June 1, 2013. The note is secured by the full faith and credit of the County. The short term note is used to facilitate cash flow needs.

The following is a summary of the changes in short-term liabilities for the year ended December 31, 2012:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	<u>\$ 45,000</u>	<u>\$ 1,000,000</u>	<u>\$ 990,525</u>	<u>\$ 54,475</u>

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 9: PENSION PLANS

PRIMARY GOVERNMENT

Plan Description – Kalkaska County participates in a defined benefit retirement plan administered by the Municipal Employee’s Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State’s local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity that has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48817.

All full time County employees are eligible to participate in the system. Benefits vest after ten years of service. General County employees who retire at or after age 55 with 25 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% percent of the member’s 5-year final average compensation. The Sheriff Department participating employees and dispatchers who retire with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of the member’s 5-year final average compensation or three year average in the case of command office members. The system also provides death and disability benefits which are established by State Statute.

Participating General County employees are required to contribute 1.0% to 3% of their annual salary to the system. The county is required to contribute the remaining amounts necessary to fund the Michigan Municipal Employees retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2011. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2011 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9: PENSION PLANS - continued

GASB 25 INFORMATION (as of 12/31/12)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 9,829,725
Terminated employees not yet receiving benefits	431,732
Non-vested terminated employees	46,179
Current employee:	
Accumulated employee contributions including allocated investment income	296,317
Employer financed	<u>6,399,591</u>
Total actuarial accrued liability	17,003,544
Net Assets Available for Benefits, at actuarial value (Market Value is \$12,382,590)	<u>14,160,271</u>
Unfunded (over funded) actuarial accrued liability	<u><u>\$ 2,843,273</u></u>

GASB 27 INFORMATION (as of 12/31/12)

Fiscal year beginning	January 1, 2014
Annual required contribution (ARC)	\$ 518,016
Amortization factor used – underfunded liabilities (30 years)	0.085453
Amortization factor used – overfunded liabilities – varies by year – see report	
5 years	0.221706
26 years	0.058519

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9: PENSION PLANS - continued

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2012 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Aggregate Accrued Liabilities – Comparative Schedule of Funding Progress

	Fiscal year ended December 31:		
	2012	2011	2010
Annual Pension cost	\$ 490,744	\$ 478,216	\$ 541,324
Actuarial value of assets	14,160,271	13,888,683	13,389,467
Actuarial accrued liability	17,003,544	16,398,307	15,526,197
(Unfunded) / Overfunded AAL	(2,843,273)	(2,509,624)	(2,136,730)
Percent of funded AAL	83.0%	85.0%	86.0%
Covered payroll	3,343,555	3,376,009	3,499,935
UAAL as a % of covered payroll	85.03%	74.33%	61.05%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

The funding method was last revised as of December 31, 2011 to reflect the results of the study plan experience covering the period from December 31, 2003 through December 31, 2008.

COUNTY ROAD COMMISSION

A. Description of Plan and Plan Assets

The Kalkaska County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death allowance, duty-connected death allowance, post-retirement adjustments and death-after-retirement surviving spouse benefit to plan members and their beneficiaries. The service requirement is under the B-4 provision of the retirement contract. This requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the calendar year ended December 31, 2011. For new hires after July 1, 2011, employees will be placed in a MERS Hybrid Plan, which is a combination of defined benefit and defined contribution plan.

MERS was established in 1946 under Public Act 135 of 1945 and granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9: PENSION PLANS - continued

B. Funding Policy

During the calendar year ended December 21, 2012, the Road Commission did not obligate the employees to contribute any portion of their salary to the plan. The Road Commission was required to contribute at an actuarially determined rate of 37.12% for the union and 15.70% for administration based on the 2009 actuarial valuation beginning on January 1, 2011.

C. Annual Pension Cost

For the calendar year ended December 31, 2012, the Road Commission's annual pension cost was \$323,348, which was equal to the Road Commission's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2009. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 27 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

D. Three-year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
2009	\$ 322,738	100%	\$ -
2010	323,730	100%	-
2011	323,348	100%	-

E. Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as A Percent Of Covered Payroll
12/31/2009	\$4,688,322	\$8,573,071	\$ 3,884,749	55%	\$1,023,422	380%
12/31/2010	4,621,053	8,740,462	4,119,409	53%	922,354	447%
12/31/2011	4,538,801	9,003,467	4,464,666	50%	913,020	489%

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 10: POST EMPLOYMENT HEALTH CARE BENEFITS

Primary Government

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 post-employment 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. Beginning in 2012, GASB Statement No. 45, "Post-Employment Benefits Other Than Pensions" (OPEB), has been implemented prospectively.

Funding Policy

The contribution requirements of Kalkaska County plan members are established and may be amended by Kalkaska County. At December 31, 2012, membership of the plan consisted of the following:

Active plan members	86
Retirees and beneficiaries receiving benefits	<u>11</u>
Total plan members	<u>97</u>

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10: POST EMPLOYMENT HEALTH CARE BENEFITS-continued

Active members are not obligated to make contributions to the Plan at this time. Currently, Kalkaska County has not yet decided to make contributions to the Plan that is in excess of the benefits due in the current year. The current contributions for the plan consist of Kalkaska County paying the monthly health insurance premium for teamsters with 25 years of service, employer pays per-65 premium up to \$500 per month; for employees age 60 with 15 years of service at retirement, employer pays 50% of pre-65 single premium up to \$250 per month. Sheriff employees with 25 years of service, at retirement, employer pays per-65 premium up to \$500 per month; for employees age 60 with 15 years of service at retirement, employer pays 50% of pre-65 single premium up to \$250 per month. At December 31, 2012 the amount of the contribution was \$43,820

Annual OPEB Cost and Net OPEB Obligation

Kalkaska County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement No. 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 actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of Kalkaska County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation to the plan:

Annual required contribution	\$ 50,080	
Contributions made	(43,191)	
Increase/decrease in net OPEB obligation	6,889	
Net OPEB Obligation (Beginning of Year)	606,603	
Transition adjustment	(79,569)	
Net OPEB obligation (end of year)	\$ 533,923	

Kalkaska County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012:

Calendar Year Ended	Annual OPEB Cost	Amount Of Contribution	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	\$ 54,427	\$ 68,824	126%	\$ 605,143
12/31/2011	52,979	51,519	97%	606,603
12/31/2012	50,080	43,191	86%	533,923

Funded Status and Funding Progress

As of December 31, 2012, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$533,923, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$533,923. The covered payroll (annual payroll of active employees covered by the plan) was \$3,156,876, and the ratio of the UAAL to the covered payroll was 16.9 percent.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 10: POST EMPLOYMENT HEALTH CARE BENEFITS-continued

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.

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.

In the December 31, 2012, valuation was based on the Alternate Method as provided under GASB Statement No. 45, with a discount rate of 4.0 percent. The actuarial assumptions included a post-retirement interest rate of 4 percent, annual healthcare cost increase of 8% for 2012 and down to 5% in 2015, annual cost increase for Delta Dental of 3%. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012 was thirty years.

DISCRETE COMPONENT UNIT –

Plan Description

The Road Commission Retiree Medical Plan (Plan) is a single-employer defined benefit healthcare plan administered by the Road Commission and can be amended at its discretion. The Plan provides post-employment health care benefits to employees who retired from the Road Commission. There were several retirement windows open to employees during the last several years. In fiscal year 2006, there was a retirement window that gave employees the opportunity to retire at age 55 with 20 or more years of service. During calendar year 2007, there was a window from June 1 to July 31, 2007 that allowed union employees to retire after reaching a combined age and years of service of 75, regardless of age. All other employees may retire on or after attaining age 60 with 20 or more years of service, or those who retire under a valid disability claim regardless of age.

Funding Policy

The contribution requirements of Road Commission Plan members are established and may be amended by the Road Commission. At December 31, 2012, membership of the Plan consisted of the following:

OPEB plan participants	22
Retirees and beneficiaries receiving benefits	<u>17</u>
Total plan members	<u><u>39</u></u>

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10: POST EMPLOYMENT HEALTH CARE BENEFITS-continued

Active members are not obligated to make contributions to the Plan at this time. Currently, the Road Commission has not yet decided to make contributions to the Plan that is in excess of the benefits due in the current year. The current contributions for the plan consist of the Road Commission paying the monthly health insurance premium for union and nonunion employees until death (or until the retiree is covered under a health insurance policy from another employer) and for a period of three years after retirement for spouses (when retiree is 62-65) on a pay-as-you-go financing. At December 31, 2012 the amount of the contribution was \$91,231.

Annual OPEB Cost and Net OPEB Obligation

The Road Commission's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement No. 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 actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Road Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation to the plan:

Annual required contribution	\$ 303,581
Interest on net OPEB obligation	47,553
Contributions made	<u>(91,231)</u>
Increase/decrease in net OPEB obligation	259,903
Net OPEB Obligation (Beginning of Year)	1,700,789
*Restatement to Beginning of Year	<u>(1,021,466)</u>
Net OPEB obligation (end of year)	<u>\$ 939,226</u>

*The adjustment of \$1,021,466 is the result of the reduction in the OPEB obligation in the 2011 actuarial.

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012:

Calendar Year Ended	Annual OPEB Cost	Amount Of Contribution	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
01/01/2008	\$ 678,764	\$ 169,691	25%	\$ 484,163
01/01/2011	351,421	158,139	45%	679,323
01/01/2012	351,134	91,295	26%	939,226

Funded Status and Funding Progress

The funded status of the Plan as of the most recent alternative measurement method date December 31, 2012 is presented in the Schedule of Funding Progress as follows:

**KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10: POST EMPLOYMENT HEALTH CARE BENEFITS-continued

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percent of Covered Payroll
12/31/2008	\$ -	\$ 5,449,968	\$(5,449,968)	0%	\$1,137,947	478.93%
12/31/2011	-	\$ 3,300,192	\$(3,300,192)	0%	\$991,498	332.85%

The funded status of the Plan as of the most recent alternative measurement method date December 31, 2012 is presented in the Schedule of Funding Progress as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percent of Covered Payroll
12/31/2012	\$ -	\$ 2,678,185	\$(2,678,185)	0%	\$900,076	297.55%

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.

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, 2012, valuation was based on the Alternate Method as provided under GASB Statement No. 45, with a discount rate of 7.0 percent. The actuarial assumptions included a post-retirement interest rate of 7 percent, salary increase of 3 percent and an annual healthcare cost trend rate based on the NIH National Health Expenditure Projects, 2005-2020. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012 was thirty years.

NOTE 11: RISK MANAGEMENT

PRIMARY GOVERNMENT - 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.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 11: RISK MANAGEMENT - continued

The government 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, 2012, there were no claims that exceeded insurance coverage. The county had no significant reduction in insurance coverage from previous years.

Road Commission

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical benefits provided to employees and natural disasters. The Road commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

The Pool operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The agreement of the Pool provides that it will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. At December 31, 2012, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road commission have not exceeded the amount of insurance coverage in any of the past 3 years.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 12: LITIGATION

In the normal course of its activities, the County is a party to various legal actions and subject to certain asserted claims and assessments. Although actions have been brought, the County has not experienced any additional significant losses or costs. It is the County's opinion that the outcome of any ending actions will not have a material effect on the County's financial position or results of operations.

NOTE 13: SUBSEQUENT EVENTS

Primary Government

Management has evaluated events and transactions subsequent to December 31, 2012 for potential recognition and disclosure through October 22, 2013, the date of the financial statements were available to be issued.

KALKASKA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 14: ADJUSTMENT TO NET POSITION – COMPONENT UNIT

The government-wide net position of the component unit was restated for January 1, 2012 due to corrections from the prior year related to Capital Assets and Other Post-Employment Benefits as Follows:

Net Position—January 1, 2012		\$ 15,910,103
Adjustments:		
Net Increase to Capital Assets	\$ 35,994	
Reduction in OPEB Obligation Payable	<u>1,021,466</u>	
Increase in Net Position at January 1, 2012		<u>1,057,460</u>
Restated Net Position—January 1, 2012		<u>\$ 16,967,563</u>

REQUIRED SUPPLEMENTARY INFORMATION

**KALKASKA COUNTY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 4,055,066	\$ 4,211,066	\$ 4,196,774	\$ (14,292)
Licenses and permits	42,480	42,782	42,782	-
Federal grants	88,518	97,371	74,473	(22,898)
State grants	932,849	920,821	920,574	(247)
Charges for services	831,036	858,137	858,137	-
Fines and forfeits	4,000	4,092	4,092	-
Interest earned	19,450	7,349	7,349	-
Rents	122,915	127,753	127,753	-
Other	236,750	310,095	165,649	(144,446)
TOTAL REVENUES	<u>6,333,064</u>	<u>6,579,466</u>	<u>6,397,583</u>	<u>(181,883)</u>
EXPENDITURES:				
Current:				
Legislative	118,225	185,662	185,662	-
Judicial	912,797	859,358	854,874	4,484
General government	1,972,252	2,060,722	1,804,295	256,427
Public safety	2,756,929	2,532,503	2,538,826	(6,323)
Public works	86,576	86,732	86,732	-
Health and welfare	398,692	367,146	348,542	18,604
Other	497,900	454,524	455,374	(850)
TOTAL EXPENDITURES	<u>6,743,371</u>	<u>6,546,647</u>	<u>6,274,305</u>	<u>272,342</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(410,307)</u>	<u>32,819</u>	<u>123,278</u>	<u>90,459</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	658,714	111,044	137,673	26,629
Operating transfers (out)	(237,907)	(249,967)	(249,967)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>420,807</u>	<u>(138,923)</u>	<u>(112,294)</u>	<u>26,629</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 10,500</u>	<u>\$ (106,104)</u>	<u>10,984</u>	<u>\$ 117,088</u>
FUND BALANCE, beginning			<u>853,962</u>	
FUND BALANCE, ending			<u>\$ 864,946</u>	

**KALKASKA COUNTY
HOUSING FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
REVENUES:				
Federal grants	\$ 74,400	\$ 17,000	\$ 17,151	\$ 151
Interest and rents	10	10	63	53
Other	30,000	18,689	18,239	(450)
TOTAL REVENUES	<u>104,410</u>	<u>35,699</u>	<u>35,453</u>	<u>(246)</u>
EXPENDITURES:				
Current:				
Health and welfare	104,400	16,971	5,565	11,406
TOTAL EXPENDITURES	<u>104,400</u>	<u>16,971</u>	<u>5,565</u>	<u>11,406</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10</u>	<u>18,728</u>	<u>29,888</u>	<u>11,160</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 10</u>	<u>\$ 18,728</u>	29,888	<u>\$ 11,160</u>
FUND BALANCE, beginning			<u>26,210</u>	
FUND BALANCE, ending			<u>\$ 56,098</u>	

**KALKASKA COUNTY
 COMMISSION ON AGING FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 611,252	\$ 611,252	\$ 367,603	\$ (243,649)
Federal grants	-	-	43,459	43,459
Charges for services	297,493	297,493	415,125	117,632
Interest	<u>-</u>	<u>-</u>	<u>1,067</u>	<u>1,067</u>
 TOTAL REVENUES	 <u>908,745</u>	 <u>908,745</u>	 <u>827,254</u>	 <u>(81,491)</u>
EXPENDITURES:				
Current:				
Health & welfare	<u>908,745</u>	<u>908,745</u>	<u>760,874</u>	<u>147,871</u>
 TOTAL EXPENDITURES	 <u>908,745</u>	 <u>908,745</u>	 <u>760,874</u>	 <u>147,871</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES				
	<u>\$ -</u>	<u>\$ -</u>	66,380	<u>\$ 66,380</u>
FUND BALANCE, beginning			<u>621,878</u>	
FUND BALANCE, ending			<u>\$ 688,258</u>	

SUPPLEMENTARY DATA SECTION

**KALKASKA COUNTY
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds								
	Bullet Proof Vest Fund	911 Equipment Fund	Parks and Recreation	Log Lake Park	Police Corps	Reserve Officers	Child Passenger Safety	Friend Of the Court	Animal Control Donation
ASSETS									
Cash	\$ 10,173	\$ 7,108	\$ 8,519	\$ 11,094	\$ 2,585	\$ 4,745	\$ 2,983	\$ -	\$ 58,736
Accounts receivable	-	-	80	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	18,504	-
Due from State	-	-	-	-	-	-	-	34,003	-
Due from other governmental units	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	3,439	-
TOTAL ASSETS	<u>\$ 10,173</u>	<u>\$ 7,108</u>	<u>\$ 8,599</u>	<u>\$ 11,094</u>	<u>\$ 2,585</u>	<u>\$ 4,745</u>	<u>\$ 2,983</u>	<u>\$ 55,946</u>	<u>\$ 58,736</u>
LIABILITIES & FUND BALANCE									
Liabilities:									
Accounts payable	\$ -	\$ 7,108	\$ 175	\$ 26	\$ -	\$ -	\$ -	\$ 2,704	\$ -
Checks written in excess of deposits	-	-	-	-	-	-	-	23,184	-
Accrued expenses	-	-	-	-	-	-	-	5,944	-
Due to other funds	-	-	-	-	-	-	-	-	-
Due to other governmental units	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>7,108</u>	<u>175</u>	<u>26</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,832</u>	<u>-</u>
Deferred Inflows of Resources:									
Taxes levied intended for later period	-	-	-	-	-	-	-	-	-
Fund Balance:									
Non-spendable	-	-	-	-	-	-	-	3,439	-
Restricted	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	10,173	-	8,424	11,068	2,585	4,745	2,983	20,675	58,736
TOTAL FUND BALANCE	<u>10,173</u>	<u>-</u>	<u>8,424</u>	<u>11,068</u>	<u>2,585</u>	<u>4,745</u>	<u>2,983</u>	<u>24,114</u>	<u>58,736</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 10,173</u>	<u>\$ 7,108</u>	<u>\$ 8,599</u>	<u>\$ 11,094</u>	<u>\$ 2,585</u>	<u>\$ 4,745</u>	<u>\$ 2,983</u>	<u>\$ 55,946</u>	<u>\$ 58,736</u>

**KALKASKA COUNTY
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds								
	Extension Strong Family Safe Child	State Domestic Preparedness	Central Purchasing	GIS Mapping/ Broadband Fund	Vehicle Replacement Fund	Courthouse Preservation	Sheriff Equipment Fund	Building Inspection Fund	Workers Comp Self Insurance
<u>ASSETS</u>									
Cash	\$ -	\$ 2,942	\$ 6,952	\$ 205	\$ 17,545	\$ 187,294	\$ 7,463	\$ 16,883	\$ 342,953
Accounts receivable	4,410	-	-	-	-	-	-	10	-
Due from other funds	-	-	-	-	-	-	-	-	-
Due from State	-	-	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	5,481	-	-	-	-	2,126	-
TOTAL ASSETS	<u>\$ 4,410</u>	<u>\$ 2,942</u>	<u>\$ 12,433</u>	<u>\$ 205</u>	<u>\$ 17,545</u>	<u>\$ 187,294</u>	<u>\$ 7,463</u>	<u>\$ 19,019</u>	<u>\$ 342,953</u>
<u>LIABILITIES & FUND BALANCE</u>									
Liabilities:									
Accounts payable	\$ 1,002	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,097	\$ -
Checks written in excess of deposits	1,981	-	-	-	-	-	-	-	-
Accrued expenses	-	-	-	-	-	-	-	5,452	-
Due to other funds	-	-	-	-	-	-	-	-	-
Due to other governmental units	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>2,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,549</u>	<u>-</u>
Deferred Inflows of Resources:									
Taxes levied intended for later period	-	-	-	-	-	-	-	-	-
Fund Balance:									
Non-spendable	-	-	5,481	-	-	-	-	2,126	-
Restricted	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	1,427	2,942	6,952	205	17,545	187,294	7,463	9,344	342,953
TOTAL FUND BALANCE	<u>1,427</u>	<u>2,942</u>	<u>12,433</u>	<u>205</u>	<u>17,545</u>	<u>187,294</u>	<u>7,463</u>	<u>11,470</u>	<u>342,953</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 4,410</u>	<u>\$ 2,942</u>	<u>\$ 12,433</u>	<u>\$ 205</u>	<u>\$ 17,545</u>	<u>\$ 187,294</u>	<u>\$ 7,463</u>	<u>\$ 19,019</u>	<u>\$ 342,953</u>

**KALKASKA COUNTY
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds								
	Building	911 Central	Tower	Rod	Sheriff's	Snap-Ed	Recycling	Corrections	Community
	Improvement	Dispatch	Repair	Equipment/ Technology	Computer Fund	Grant	Fund	Officers Training Fund	Corrections Plan
<u>ASSETS</u>									
Cash	\$ 30,624	\$ 396,583	\$ 4,311	\$ 31,198	\$ 5,146	\$ 2,324	\$ 101,188	\$ 5,247	\$ 14,831
Accounts receivable	-	97,376	-	10	-	-	83,836	-	-
Due from other funds	27,073	87,428	-	164	-	-	-	-	-
Due from State	-	33,231	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	5,499	-	-	-	-	1,135	-	-
TOTAL ASSETS	<u>\$ 57,697</u>	<u>\$ 620,117</u>	<u>\$ 4,311</u>	<u>\$ 31,372</u>	<u>\$ 5,146</u>	<u>\$ 2,324</u>	<u>\$ 186,159</u>	<u>\$ 5,247</u>	<u>\$ 14,831</u>
<u>LIABILITIES & FUND BALANCE</u>									
Liabilities:									
Accounts payable	\$ -	\$ 5,549	\$ -	\$ -	\$ -	\$ -	\$ 2,014	\$ -	\$ -
Checks written on excess of deposits	-	-	-	-	-	-	-	-	-
Accrued expenses	-	10,708	-	-	-	-	2,290	-	-
Due to other funds	-	20,000	-	-	-	-	-	-	-
Due to other governmental units	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>36,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,304</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources:									
Taxes levied intended for later period	-	-	-	-	-	-	83,836	-	-
Fund Balance:									
Non-spendable	-	5,499	-	-	-	-	1,135	-	-
Restricted	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	57,697	578,361	4,311	31,372	5,146	2,324	96,884	5,247	14,831
TOTAL FUND BALANCE	<u>57,697</u>	<u>583,860</u>	<u>4,311</u>	<u>31,372</u>	<u>5,146</u>	<u>2,324</u>	<u>98,019</u>	<u>5,247</u>	<u>14,831</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 57,697</u>	<u>\$ 620,117</u>	<u>\$ 4,311</u>	<u>\$ 31,372</u>	<u>\$ 5,146</u>	<u>\$ 2,324</u>	<u>\$ 186,159</u>	<u>\$ 5,247</u>	<u>\$ 14,831</u>

**KALKASKA COUNTY
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds								
	Voice Verification	Animal Control	K-9 Fund	Law Library	County Library	Inmate Programs & Services	PBT Fund	Police Hiring Supplement	TNT Grant
ASSETS									
Cash	\$ 2,240	\$ 11,622	\$ 2,876	\$ 1,967	\$ 308,676	\$ 7,443	\$ 77,680	\$ 2,760	\$ 23,917
Accounts receivable	-	95,684	77	-	179,521	-	-	-	-
Due from other funds	-	-	-	-	5,139	-	-	-	-
Due from State	-	-	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	782	-	-	1,699	-	-	1,518	-
TOTAL ASSETS	\$ 2,240	\$ 108,088	\$ 2,953	\$ 1,967	\$ 495,035	\$ 7,443	\$ 77,680	\$ 4,278	\$ 23,917
LIABILITIES & FUND BALANCE									
Liabilities:									
Accounts payable	\$ 194	\$ 2,113	\$ -	\$ 353	\$ 5,860	\$ -	\$ -	\$ 2,364	\$ -
Checks written in excess of deposits	-	-	-	-	-	-	-	-	-
Accrued expenses	-	2,982	-	-	7,958	-	-	4,087	-
Due to other funds	-	-	-	-	2,685	-	-	-	-
Due to other governmental units	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	194	5,095	-	353	16,503	-	-	6,451	-
Deferred Inflows of Resources:									
Taxes levied intended for later period	-	95,684	-	-	179,521	-	-	-	-
Fund Balance:									
Non-spendable	-	782	-	-	1,699	-	-	1,518	-
Restricted	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	2,046	6,527	2,953	1,614	297,312	7,443	77,680	(3,691)	23,917
TOTAL FUND BALANCE	2,046	7,309	2,953	1,614	299,011	7,443	77,680	(2,173)	23,917
TOTAL LIABILITIES & FUND BALANCE	\$ 2,240	\$ 108,088	\$ 2,953	\$ 1,967	\$ 495,035	\$ 7,443	\$ 77,680	\$ 4,278	\$ 23,917

**KALKASKA COUNTY
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds				
	Child Care	Veterans	Marine	Revenue	Total
	Fund	Trust	Clearwater Township	Sharing Reserve	
<u>ASSETS</u>					
Cash	\$ 200,357	\$ -	\$ 14,000	\$ 893,869	\$ 2,827,039
Accounts receivable	-	-	-	-	461,004
Due from other funds	-	-	-	-	138,308
Due from State	7,309	2,560	-	-	77,103
Due from other governmental units	-	-	-	-	-
Prepaid expenses	1,408	-	-	-	23,087
TOTAL ASSETS	<u>\$ 209,074</u>	<u>\$ 2,560</u>	<u>\$ 14,000</u>	<u>\$ 893,869</u>	<u>\$ 3,526,541</u>
<u>LIABILITIES & FUND BALANCE</u>					
Liabilities:					
Accounts payable	\$ 6,311	\$ -	\$ -	\$ -	\$ 37,870
Checks written in excess of deposits	-	51	-	-	25,216
Accrued expenses	2,486	-	-	-	41,907
Due to other funds	-	-	-	-	22,685
Due to other governmental units	-	-	-	-	-
TOTAL LIABILITIES	<u>8,797</u>	<u>51</u>	<u>-</u>	<u>-</u>	<u>127,678</u>
Deferred Inflows of Resources:					
Taxes levied intended for later period	-	-	-	-	359,041
Fund Balance:					
Non-spendable	1,408	-	-	-	23,087
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	198,869	2,509	14,000	893,869	3,016,735
TOTAL FUND BALANCE	<u>200,277</u>	<u>2,509</u>	<u>14,000</u>	<u>893,869</u>	<u>3,039,822</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 209,074</u>	<u>\$ 2,560</u>	<u>\$ 14,000</u>	<u>\$ 893,869</u>	<u>\$ 3,526,541</u>

**KALKASKA COUNTY
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Capital Project Funds				Total Nonmajor Funds
	County Building Fund	County Library Building Fund	County Building Authority	Total	
	Fund	Building Fund	Authority	Total	
<u>ASSETS</u>					
Cash	\$ 86,701	\$ 290,991	\$ 4,328	\$ 382,020	\$ 3,209,059
Accounts receivable	-	-	-	-	461,004
Due from other funds	-	-	-	-	138,308
Due from State	-	-	-	-	77,103
Due from other governmental units	-	-	-	-	-
Prepaid expenses	-	-	-	-	23,087
TOTAL ASSETS	<u>\$ 86,701</u>	<u>\$ 290,991</u>	<u>\$ 4,328</u>	<u>\$ 382,020</u>	<u>\$ 3,908,561</u>
<u>LIABILITIES & FUND BALANCE</u>					
Liabilities:					
Accounts payable	\$ -	\$ 500	\$ -	\$ 500	\$ 38,370
Checks written in excess of deposits	-	-	-	-	25,216
Accrued expenses	-	-	-	-	41,907
Due to other funds	67,500	-	-	67,500	90,185
Due to other governmental units	-	-	-	-	-
TOTAL LIABILITIES	<u>67,500</u>	<u>500</u>	<u>-</u>	<u>68,000</u>	<u>195,678</u>
Deferred Inflows of Resources:					
Taxes levied intended for later period	-	-	-	-	359,041
Fund Balance:					
Non-spendable	-	-	-	-	23,087
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	19,201	290,491	4,328	314,020	3,330,755
TOTAL FUND BALANCE	<u>19,201</u>	<u>290,491</u>	<u>4,328</u>	<u>314,020</u>	<u>3,353,842</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 86,701</u>	<u>\$ 290,991</u>	<u>\$ 4,328</u>	<u>\$ 382,020</u>	<u>\$ 3,908,561</u>

KALKASKA COUNTY
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Special Revenue Funds

	Bullet Proof Vest Fund	911 Equipment Fund	Parks and Recreation	Log Lake Park	Police Corps	Reserve Officers	Child Passenger Safety	Friend Of the Court	Animal Control Donation
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
License and permits	-	-	-	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-	-	169,267	-
State grants	-	-	-	-	-	-	-	-	-
Other governmental revenue	-	-	-	-	-	-	-	10,013	-
Charges for services	-	-	421	582	-	-	-	18,395	-
Fines & forfeits	-	-	-	-	-	-	-	-	-
Interest & rents	-	-	17,102	20,725	-	-	-	-	-
Other	2,000	-	343	-	-	-	-	-	6,565
TOTAL REVENUES	2,000	-	17,866	21,307	-	-	-	197,675	6,565
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	219,737	-
General government	-	-	-	-	-	-	-	-	-
Public safety	-	44,475	-	-	-	-	-	-	476
Health & welfare	-	-	-	-	-	-	-	-	-
Recreational & cultural	-	-	28,310	21,651	-	-	-	-	-
TOTAL EXPENDITURES	-	44,475	28,310	21,651	-	-	-	219,737	476
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,000	(44,475)	(10,444)	(344)	-	-	-	(22,062)	6,089
OTHER FINANCING SOURCES (USES):									
Operating transfers in	-	-	4,444	-	-	-	-	27,402	-
Operating transfers (out)	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES	-	-	4,444	-	-	-	-	27,402	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,000	(44,475)	(6,000)	(344)	-	-	-	5,340	6,089
FUND BALANCE, beginning	8,173	44,475	14,424	11,412	2,585	4,745	2,983	18,774	52,647
FUND BALANCE, ending	\$ 10,173	\$ -	\$ 8,424	\$ 11,068	\$ 2,585	\$ 4,745	\$ 2,983	\$ 24,114	\$ 58,736

KALKASKA COUNTY
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds								
	Ext Strong Family Safe Child	State Domestic Preparedness	Central Purchasing	GIS Mapping/ Broadband Fund	Vehicle Replacement Fund	Courthouse Preservation	Sheriff Equipment Fund	Building Inspection Fund	Workers Comp Self Insurance
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
License and permits	-	-	-	-	-	-	-	153,988	-
Federal grants	-	-	-	-	-	-	-	-	-
State grants	15,645	-	-	-	-	-	-	-	-
Other governmental revenue	-	-	-	-	-	-	-	-	-
Charges for services	-	-	11,006	-	-	-	-	-	130,125
Fines & forfeits	-	-	-	-	-	51,589	-	-	-
Interest & rents	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	18,888	-	-	-	-
TOTAL REVENUES	<u>15,645</u>	<u>-</u>	<u>11,006</u>	<u>-</u>	<u>18,888</u>	<u>51,589</u>	<u>-</u>	<u>153,988</u>	<u>130,125</u>
EXPENDITURES:									
Judicial	-	-	-	-	-	16,179	-	-	-
General government	-	-	15,334	1,795	-	-	-	-	-
Public safety	14,218	-	-	-	23,321	-	7,045	196,846	-
Health & welfare	-	-	-	-	-	-	-	-	65,599
Recreational & cultural	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>14,218</u>	<u>-</u>	<u>15,334</u>	<u>1,795</u>	<u>23,321</u>	<u>16,179</u>	<u>7,045</u>	<u>196,846</u>	<u>65,599</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,427</u>	<u>-</u>	<u>(4,328)</u>	<u>(1,795)</u>	<u>(4,433)</u>	<u>35,410</u>	<u>(7,045)</u>	<u>(42,858)</u>	<u>64,526</u>
OTHER FINANCING SOURCES (USES):									
Operating transfers in	-	-	-	-	-	-	-	21,616	-
Operating transfers (out)	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,616</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>1,427</u>	<u>-</u>	<u>(4,328)</u>	<u>(1,795)</u>	<u>(4,433)</u>	<u>35,410</u>	<u>(7,045)</u>	<u>(21,242)</u>	<u>64,526</u>
FUND BALANCE, beginning	<u>-</u>	<u>2,942</u>	<u>16,761</u>	<u>2,000</u>	<u>21,978</u>	<u>151,884</u>	<u>14,508</u>	<u>32,712</u>	<u>278,427</u>
FUND BALANCE, ending	<u>\$ 1,427</u>	<u>\$ 2,942</u>	<u>\$ 12,433</u>	<u>\$ 205</u>	<u>\$ 17,545</u>	<u>\$ 187,294</u>	<u>\$ 7,463</u>	<u>\$ 11,470</u>	<u>\$ 342,953</u>

KALKASKA COUNTY
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Special Revenue Funds

	Building Improvement	911 Central Dispatch	Tower Repair	Rod Equipment/ Technology	Sheriff's Computer Fund	Snap-Ed Grant	Recycling Fund	Corrections Officers Training Fund	Community Corrections Plan
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,272	\$ -	\$ -
License and permits	-	-	-	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-	-	-	-
State grants	-	149,961	-	-	-	-	-	-	38,851
Other governmental revenue	-	-	-	-	-	-	-	-	-
Charges for services	-	458,499	-	-	-	-	26,721	3,358	-
Fines & forfeits	-	-	-	-	-	-	-	-	-
Interest & rents	9,321	213	-	-	-	-	-	-	-
Other	-	-	-	29,332	-	-	-	-	-
TOTAL REVENUES	9,321	608,673	-	29,332	-	-	111,993	3,358	38,851
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	-
General government	27,723	-	595	23,417	-	-	-	-	-
Public safety	-	376,234	-	-	6,500	-	-	-	825
Health & welfare	-	-	-	-	-	-	88,988	-	-
Recreational & cultural	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	27,723	376,234	595	23,417	6,500	-	88,988	-	825
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(18,402)	232,439	(595)	5,915	(6,500)	-	23,005	3,358	38,026
OTHER FINANCING SOURCES (USES):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers (out)	-	(89,475)	-	-	-	-	-	-	(32,798)
TOTAL OTHER FINANCING SOURCES	-	(89,475)	-	-	-	-	-	-	(32,798)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(18,402)	142,964	(595)	5,915	(6,500)	-	23,005	3,358	5,228
FUND BALANCE, beginning	76,099	440,896	4,906	25,457	11,646	2,324	75,014	1,889	9,603
FUND BALANCE, ending	<u>\$ 57,697</u>	<u>\$ 583,860</u>	<u>\$ 4,311</u>	<u>\$ 31,372</u>	<u>\$ 5,146</u>	<u>\$ 2,324</u>	<u>\$ 98,019</u>	<u>\$ 5,247</u>	<u>\$ 14,831</u>

KALKASKA COUNTY
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Special Revenue Funds

	Voice Verification	Animal Control	K-9 Fund	Law Library	County Library	Inmate Programs & Services	PBT Fund	Police Hiring Supplement	TNT Grant
REVENUES:									
Taxes	\$ -	\$ 97,130	\$ -	\$ -	\$ 185,070	\$ -	\$ -	\$ -	\$ -
License and permits	-	-	-	-	-	-	-	-	-
Federal grants	-	-	5,731	-	-	-	-	-	-
State grants	-	-	-	-	9,768	-	-	-	-
Other governmental revenue	-	-	-	-	-	-	-	72,520	-
Charges for services	1,835	5,464	-	-	16,929	6,001	11,463	-	-
Fines & forfeits	-	-	-	-	127,853	-	-	-	-
Interest & rents	-	-	-	-	1,259	-	-	-	-
Other	-	-	-	-	-	-	-	-	13,400
TOTAL REVENUES	1,835	102,594	5,731	-	340,879	6,001	11,463	72,520	13,400
EXPENDITURES:									
Judicial	-	-	-	5,640	-	-	-	-	-
General government	-	-	-	-	-	-	-	-	-
Public safety	2,192	99,154	6,032	-	-	-	216	104,194	-
Health & welfare	-	-	-	-	-	1,252	-	-	7,192
Recreational & cultural	-	-	-	-	323,155	-	-	-	-
TOTAL EXPENDITURES	2,192	99,154	6,032	5,640	323,155	1,252	216	104,194	7,192
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(357)	3,440	(301)	(5,640)	17,724	4,749	11,247	(31,674)	6,208
OTHER FINANCING SOURCES (USES):									
Operating transfers in	-	-	-	2,500	-	-	-	35,831	-
Operating transfers (out)	(7,900)	-	-	-	-	(2,500)	(5,000)	-	-
TOTAL OTHER FINANCING SOURCES	(7,900)	-	-	2,500	-	(2,500)	(5,000)	35,831	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(8,257)	3,440	(301)	(3,140)	17,724	2,249	6,247	4,157	6,208
FUND BALANCE, beginning	10,303	3,869	3,254	4,754	281,287	5,194	71,433	(6,330)	17,709
FUND BALANCE, ending	\$ 2,046	\$ 7,309	\$ 2,953	\$ 1,614	\$ 299,011	\$ 7,443	\$ 77,680	\$ (2,173)	\$ 23,917

KALKASKA COUNTY
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds				
	Child Care	Veterans	Marine Clearwater	Revenue Sharing	
	Fund	Trust	Township	Reserve	Total
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 367,472
License and permits	-	-	-	-	153,988
Federal grants	-	-	-	-	174,998
State grants	62,446	-	-	-	276,671
Other governmental revenue	14,000	2,560	5,000	-	104,093
Charges for services	-	-	-	-	690,799
Fines & forfeits	-	-	-	-	179,442
Interest & rents	-	-	-	5,679	54,299
Other	-	-	-	-	70,528
TOTAL REVENUES	76,446	2,560	5,000	5,679	2,072,290
EXPENDITURES:					
Judicial	-	-	-	-	241,556
General government	-	-	-	329,197	398,061
Public safety	-	-	-	-	881,728
Health & welfare	157,251	2,560	-	-	322,842
Recreational & cultural	-	-	-	-	373,116
TOTAL EXPENDITURES	157,251	2,560	-	329,197	2,217,303
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(80,805)	-	5,000	(323,518)	(145,013)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	158,174	-	-	-	249,967
Operating transfers (out)	-	-	-	-	(137,673)
TOTAL OTHER FINANCING SOURCES	158,174	-	-	-	112,294
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	77,369	-	5,000	(323,518)	(32,719)
FUND BALANCE, beginning	122,908	2,509	9,000	1,217,387	3,072,541
FUND BALANCE, ending	<u>\$ 200,277</u>	<u>\$ 2,509</u>	<u>\$ 14,000</u>	<u>\$ 893,869</u>	<u>\$ 3,039,822</u>

KALKASKA COUNTY
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Capital Projects Funds				Total Nonmajor Funds
	County Building Fund	County Library Building Fund	County Building Authority	Total	
	Fund	Building Fund	Authority	Total	
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 367,472
License and permits	-	-	-	-	153,988
Federal grants	-	-	-	-	174,998
State grants	-	-	-	-	276,671
Other governmental revenue	-	-	-	-	104,093
Charges for services	-	-	-	-	690,799
Fines & forfeits	-	-	-	-	179,442
Interest & rents	-	389	4	393	54,692
Other	41,920	2,061	-	43,981	114,509
TOTAL REVENUES	41,920	2,450	4	44,374	2,116,664
EXPENDITURES:					
Judicial	-	-	-	-	241,556
General government	-	-	-	-	398,061
Public safety	-	-	-	-	881,728
Health & welfare	6,300	-	-	6,300	329,142
Recreational & cultural	-	500	-	500	373,616
TOTAL EXPENDITURES	6,300	500	-	6,800	2,224,103
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	35,620	1,950	4	37,574	(107,439)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	-	-	249,967
Operating transfers (out)	-	-	-	-	(137,673)
TOTAL OTHER FINANCING SOURCES	-	-	-	-	112,294
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	35,620	1,950	4	37,574	4,855
FUND BALANCE, beginning	(16,419)	288,541	4,324	276,446	3,348,987
FUND BALANCE, ending	\$ 19,201	\$ 290,491	\$ 4,328	\$ 314,020	\$ 3,353,842



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*

Honorable Chairman and Members
of the Board of Commissioners
Kalkaska County
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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kalkaska County, Michigan, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Kalkaska County, Michigan's basic financial statements and have issued our report thereon dated October 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kalkaska County, Michigan, 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 Kalkaska County, Michigan, internal control. Accordingly, we do not express an opinion on the effectiveness of Kalkaska County, Michigan, 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, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses.

Finding Number 2012-01

Criteria: An adequately functioning internal control system requires a timely monthly reconciliation and review of bank accounts.

Condition: The County has not been consistently performing bank reconciliations in an accurate or timely manner.

Cause: This condition was caused by a change in the County Controller position in January 2012.

Effect: While the accounts were eventually reconciled, the lack of a timely reconciliation would not have allowed County personnel to detect potential misstatements in a timely manner.

Management's Response: The County has stated that additional training will be sought for the Controller and the County Treasurer will assume the reconciliation responsibilities.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies.

FINDING 2012-02

Preparation of Financial Statements

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes. (i.e., external financial reporting.)

Conditions: As is the case with many governmental units, the County has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the County's *internal* controls.

Cause: This condition was caused by the County's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors that to incur the time and expense of obtaining necessary training and expertise required for the County to perform this task internally.

Effect: As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of its annual financial statements in accordance with GAAP, and determined that it is in the best interest of the County to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalkaska County, Michigan'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

FINDING 2012-03

Noncompliance Material to Financial Statements Compliance Reports – Timely filing of audit reports

Criteria: Kalkaska County is required to file its audit report by six months after its year end with the State of Michigan.

Condition: The County did not file required reports in a timely manner.

Cause: Completion of bank reconciliations in a timely manner resulting in a delay in the completion of the 2012 audit.

Effect: As a result of this condition, the County is exposed to the risk that State Funding may be reduced or denied, which would significantly impact revenue and receivables reported in the financial statements.

Recommendation: We recommend the County file required reports as soon as possible and implement controls to ensure reporting deadlines are met in the future.

View of Responsible Officials: Management is aware of the risks associated with this condition, and plans to implement controls to ensure the annual audit and required reports are completed timely.

Other matters

As of the date of our report, there was an ongoing investigation with regard to misappropriation of cash receipts in the Recycling Center. The employee in question has been terminated. The County is awaiting the completion of the investigation by the Michigan State Police.

Kalkaska County, Michigan’s Response to Findings

Kalkaska County, Michigan’s response to the findings identified in our audit is described as part of each finding. Kalkaska County, Michigan’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants
October 22, 2013



October 22, 2013

Honorable Chairman and Members
Of the Board of Commissioners
Kalkaska County
Kalkaska, MI

In planning and performing our audit of the primary governments financial statements of Kalkaska County for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Kalkaska County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Housing Fund – Repeat Comment

The contract with Antrim County for shared accounting services for the Housing Fund was canceled in May of 2011 per a board action at the 5/11/2011 board meeting. We found little to no work had been done with respect to tracking the loans made in the Housing fund. No reconciliation of the outstanding amounts was immediately available. It is vital that this responsibility be given to someone to track when loan payments are received, and to maintain compliance with this program.

The housing loans have been recorded by the Register of Deeds office, so if a homeowner attempted to sell the property, a title search would identify the loan and collect payment for the County. But a better internal system of tracking the loans needs to be developed.

Commission on Aging Fund

During our field work, we found that there was no reconciliation between the County Controllers office and the Commission on Aging. Our audit procedures found a certificate of deposit that was recorded by the Commission on Aging, but not recorded in the County's general ledger. Monthly reconciliations need to be performed with decentralized offices to ensure the financial records agree with the County's official record.

Journal Entries

We proposed numerous journal entries to management to correct the accounting records to the supporting detail. Management has made all necessary journal entries. More time needs to be taken at year end to adjust balances to agree with supporting evidence.

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

Certified Public Accountants



October 22, 2013

To the Board of Commissioners
Kalkaska County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kalkaska County for the year ended December 31, 2012, and have issued our report thereon dated October 22, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Governmental Auditing Standards*. As well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated January 15, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kalkaska County are described in Note 1 to the financial statements. The County adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, and Net Position*, and GASB 65, *Items Previously Reported as Assets and Liabilities* during the year and the application of existing policies was not changed during 2012. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Depreciation is based on the estimated useful life of the County's assets. We evaluated the key factors and assumptions used to develop the amount of depreciation charged in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

We have issued Finding numbers 2012-01, 2012-02 and 2012-03 in our letter on Compliance with *Governmental Auditing Standards*. Please review those findings as an addition to this letter.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed due to the County's inability to timely reconcile the bank accounts to the general ledger.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In total we proposed 18 journal entries to management, which they agreed to post.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,

Certified Public Accountants