

# Kalkaska County, Michigan

Year Ended  
December 31,  
2013

Financial  
Statements and  
Supplementary  
Information

# KALKASKA COUNTY, MICHIGAN

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	5
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	20
Reconciliation of Fund Balances for Governmental Funds to Net Position of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	22
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	23
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:	
General Fund	24
Housing Special Revenue Fund	25
Commission on Aging Special Revenue Fund	26
Statement of Net Position - Proprietary Funds	27
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	28
Statement of Cash Flows - Proprietary Funds	29
Statement of Fiduciary Net Position	31
Statement of Changes in Fiduciary Net Position	32
Notes to Financial Statements	33
<b>Required Supplementary Information:</b>	
Municipal Employees' Retirement System:	
Schedule of Funding Progress	66
Schedule of Employer Contributions	66
Other Postemployment Benefits Plan:	
Schedule of Funding Progress	66
Schedule of Employer Contributions	66
Road Commission Municipal Employees' Retirement System:	
Schedule of Funding Progress	67
Schedule of Employer Contributions	67
Road Commission Other Postemployment Benefits Plan:	
Schedule of Funding Progress	67
Schedule of Employer Contributions	67

# KALKASKA COUNTY, MICHIGAN

## Table of Contents

	<u>Page</u>
<b>Combining and Individual Fund Financial Statements and Schedules</b>	
General Fund:	
Schedule of Expenditures by Activity - Budget and Actual	70
Nonmajor Governmental Funds:	
Combining Balance Sheet - Nonmajor Governmental Funds	72
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	78
Agency Funds:	
Combining Statement of Fiduciary Assets and Liabilities	84
<b>Internal Control and Compliance</b>	
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 <i>Government Auditing Standards</i>	89
Schedule of Findings and Responses	91

## INDEPENDENT AUDITORS' REPORT

November 5, 2014

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **Kalkaska County, Michigan** (the "County"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Independent Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kalkaska County Road Commission discretely presented component unit, which represents 100 percent of the total assets, net position and revenue of the discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kalkaska County, Michigan as of December 31, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Restatement of Beginning Fund Balance / Net Position*

As described in Note 20 to the financial statements: 1) certain activities previously reported as separate special revenue funds were consolidated into the County's general fund in order to comply with generally accepted accounting principles, 2) beginning fund balance for the general fund and net position of governmental activities were increased to recognize certain assets previously reported in an agency fund that actually belonged to the general fund, and 3) beginning net position of governmental activities was increased to correct for an overstatement of certain liabilities and deferred inflows of resources. Our opinion is not modified with respect to these matters.

### *Other Matters*

#### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

As management of Kalkaska County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2013.

### Financial Highlights

- The assets of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$14,143,694 (net position). Of this amount, \$6,538,733 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors. The County's total net position increased by \$870,129.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,252,422, an increase of \$217,413 in comparison with the prior year. Approximately 17.1 percent of total governmental fund balance or \$582,693 is unassigned fund balance.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$583,022 or 9.5 percent of total General Fund expenditures.

### Overview of the Financial Statements

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

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

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

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

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

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

# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

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

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

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

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

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

**Proprietary Funds.** The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the Delinquent Tax funds and Sportsplex activities. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County had no internal service funds at December 31, 2013.

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

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

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

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain information concerning the County's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

## KALKASKA COUNTY, MICHIGAN

### Management's Discussion and Analysis

#### Government-Wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities and deferred inflows of resources by \$14,143,694 at the close of the most recent fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 7,277,929	\$ 6,985,305	\$ 5,178,168	\$ 4,560,266	\$12,456,097	\$11,545,571
Capital assets, net	2,346,785	2,623,393	4,755,956	4,898,682	7,102,741	7,522,075
<b>Total assets</b>	<b>9,624,714</b>	<b>9,608,698</b>	<b>9,934,124</b>	<b>9,458,948</b>	<b>19,558,838</b>	<b>19,067,646</b>
Long-term liabilities	235,716	217,102	3,160,000	3,595,000	3,395,716	3,812,102
Other liabilities	334,768	444,865	238,770	93,582	573,538	538,447
<b>Total liabilities</b>	<b>570,484</b>	<b>661,967</b>	<b>3,398,770</b>	<b>3,688,582</b>	<b>3,969,254</b>	<b>4,350,549</b>
<b>Deferred inflows of resources</b>	<b>730,247</b>	<b>718,082</b>	<b>715,643</b>	<b>725,450</b>	<b>1,445,890</b>	<b>1,443,532</b>
Net position:						
Net investment in capital assets	2,346,785	2,623,393	1,595,956	1,303,682	3,942,741	3,927,075
Restricted	3,662,220	189,684	-	-	3,662,220	189,684
Unrestricted	2,314,978	5,415,572	4,223,755	3,741,234	6,538,733	9,156,806
<b>Total net position</b>	<b>\$ 8,323,983</b>	<b>\$ 8,228,649</b>	<b>\$ 5,819,711</b>	<b>\$ 5,044,916</b>	<b>\$14,143,694</b>	<b>\$13,273,565</b>

A portion of the County's net position, \$3,942,741 (27.9 percent), reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position of \$3,662,220 (25.9 percent) represents resources that are subject to external restrictions on how they may be used. The County may use the remaining balance of unrestricted net position of \$6,538,733 (46.2 percent) to meet its ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net position, both for the government as a whole, and for its separate governmental and business-type activities.

# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 2,345,092	\$ 2,391,935	\$ 910,217	\$ 1,508,810	\$ 3,255,309	\$ 3,900,745
Operating grants	1,202,659	1,176,083	-	-	1,202,659	1,176,083
General revenues:						
Property taxes	4,963,029	4,931,849	703,895	697,422	5,666,924	5,629,271
State shared revenue	-	432,336	-	-	-	432,336
Convention facility tax	108,267	-	-	-	108,267	-
Unrestricted investment earnings	22,136	30,127	10,299	7,537	32,435	37,664
Rents	131,486	160,796	-	-	131,486	160,796
Loss on sale of capital assets	-	(38,345)	-	-	-	(38,345)
Other revenue	214,030	253,828	-	(93,032)	214,030	160,796
<b>Total revenues</b>	<b>8,986,699</b>	<b>9,338,609</b>	<b>1,624,411</b>	<b>2,120,737</b>	<b>10,611,110</b>	<b>11,459,346</b>
Expenses:						
Legislative	182,611	185,662	-	-	182,611	185,662
Judicial	1,102,695	1,130,033	-	-	1,102,695	1,130,033
General government	1,489,583	2,092,618	-	-	1,489,583	2,092,618
Public safety	3,334,958	3,409,253	-	-	3,334,958	3,409,253
Public works	81,529	86,732	-	-	81,529	86,732
Health & welfare	1,358,486	1,441,529	-	-	1,358,486	1,441,529
Community & economic development	402,671	227,071	-	-	402,671	227,071
Recreation & culture	398,870	381,638	-	-	398,870	381,638
Other	539,962	455,374	-	-	539,962	455,374
Tax collection	-	-	148,056	221,241	148,056	221,241
Sportsplex	-	-	701,560	713,701	701,560	713,701
<b>Total expenses</b>	<b>8,891,365</b>	<b>9,409,910</b>	<b>849,616</b>	<b>934,942</b>	<b>9,740,981</b>	<b>10,344,852</b>
Change in net position	95,334	(71,301)	774,795	1,185,795	870,129	1,114,494
Net position:						
Beginning of year	8,228,649	8,299,950	5,044,916	3,859,121	13,273,565	12,159,071
End of year	<u>\$ 8,323,983</u>	<u>\$ 8,228,649</u>	<u>\$ 5,819,711</u>	<u>\$ 5,044,916</u>	<u>\$ 14,143,694</u>	<u>\$ 13,273,565</u>

The County's net position increased by \$870,129 during the current fiscal year. Governmental activities accounted for \$95,334, or 11.0 percent of this increase, with business-type activities accounting for the remaining \$774,795, or 89.0 percent.

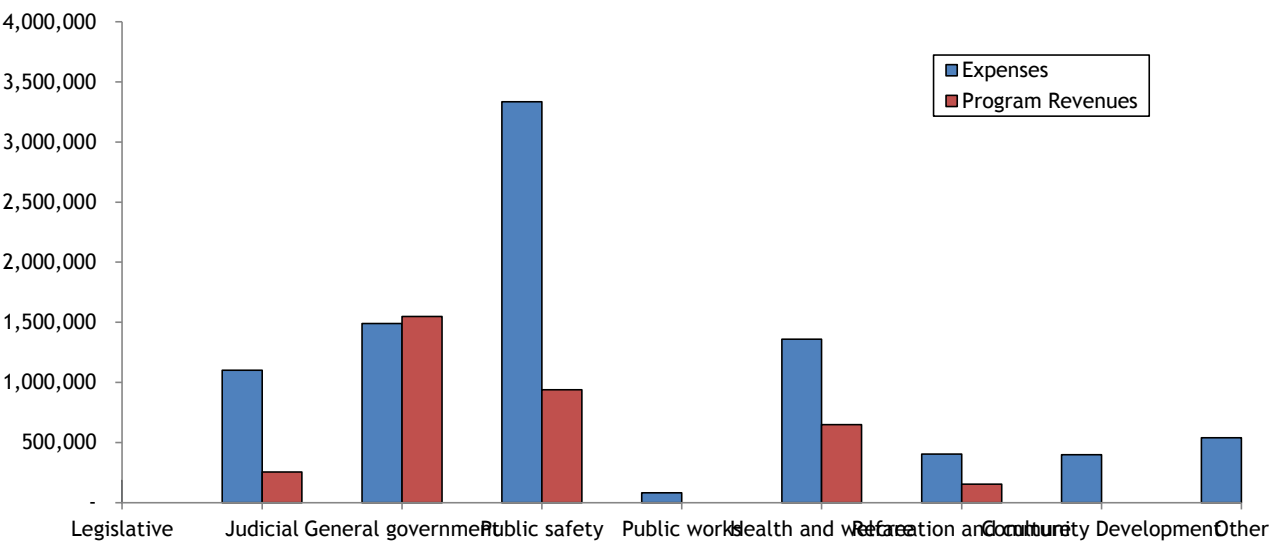
# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

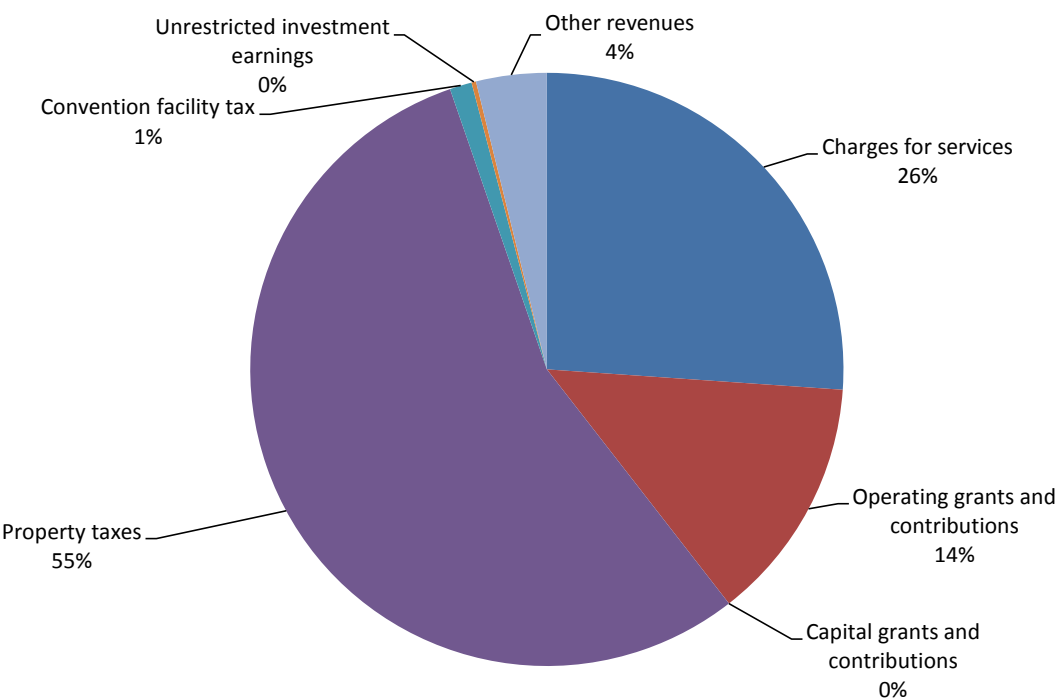
**Governmental Activities.** Governmental activities increased the County's net position by \$95,333. Key elements of this increase are as follows:

- A decrease of expenses greater than the decrease of revenues during the year led to a slight increase in net position.
- Most significantly were decreases in general government and community and economic development expenses.

Expenses and Program Revenues - Governmental Activities



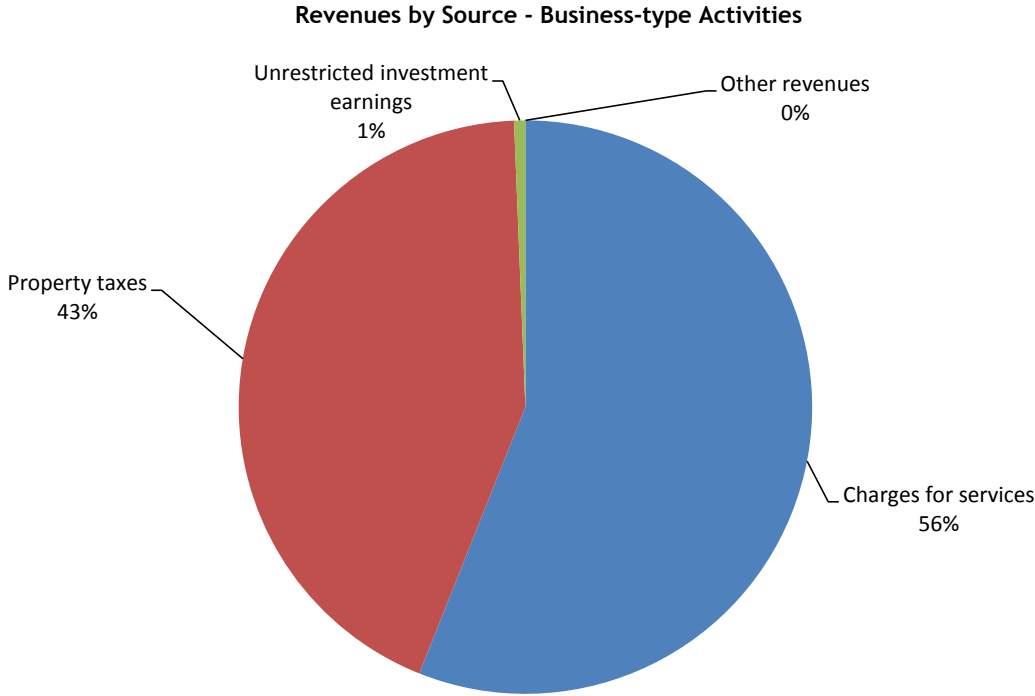
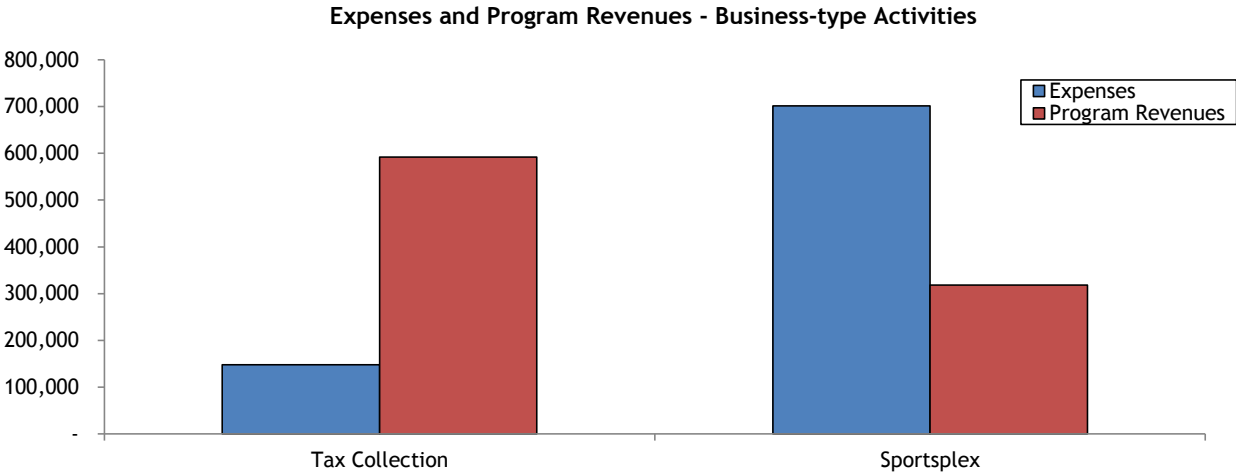
Revenues by Source - Governmental Activities



KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

**Business-type Activities.** Business-type activities increased the County’s net position by \$774,795. This increase is primarily due to receipt of interest and penalties on delinquent taxes.



# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

### Financial Analysis of the County's Funds

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,252,422, an increase of \$217,413 in comparison with the prior year. Of this amount, 17.1 percent (\$897,693) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it is classified as one of the following: A) Nonspendable (in nonspendable form) (\$204,276); B) Restricted for use per various external agreements (\$2,905,084); C) is committed through formal action of the County Board (\$1,014,703); or D) Assigned (set aside without formal board action) (\$231,296).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$898,266 while total fund balance amounted to \$1,697,769. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 14.7 percent of total General Fund expenditures, while total fund balance represents 27.7 percent of that same amount.

The fund balance of the County's General Fund increased by \$268,710 during the current fiscal year. Although expenditures were greater than revenues by \$16,181 the amount of transfers in from other funds exceeded the amount of transfers out to other funds.

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

Unrestricted net position of the proprietary funds at December 31, 2013 was \$4,223,755, with the Delinquent Tax and Sportsplex Fund reporting unrestricted net position of \$4,077,728 and \$146,027, respectively.

### General Fund Budgetary Highlights

During the year, there was no increase in appropriations between the original and final amended budget. The actual expenditures for the year were \$853,093 less than budgeted.

The General Fund budgeted for an increase in fund balance of \$37,566 and the actual increase in fund balance was \$268,710. Significant changes in budgetary variances are as follows:

- Most activities had expenditures less than budgeted, primarily General Government and Public Safety.
- State Shared revenues were budgeted as revenue but not recorded as revenue in the current year as a transfer from the Revenue Sharing Reserve fund was used to provide this funding.

# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

### Capital Asset and Debt Administration

**Capital Assets.** The County's capital assets for its governmental and business-type activities as of December 31, 2013 amounted to \$7,102,741 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, machinery and equipment, motor vehicles, drains and utility systems. The total decrease of \$419,334 in the County's investment in capital assets for the current fiscal year was 5.6 percent (a 3.7 percent decrease for governmental activities and a 1.9 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included two vehicles and a septic system improvement. The vehicles related to the sheriff's department and the commission and aging.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 281,327	\$ 281,327	\$ -	\$ -	\$ 281,327	\$ 281,327
Buildings	1,419,397	1,551,761	4,739,980	4,871,005	6,159,377	6,422,766
Land improvements	106,929	116,618	-	-	106,929	116,618
Machinery and equipment	539,132	673,687	15,976	27,677	555,108	701,364
<b>Total capital assets, net</b>	<b>\$ 2,346,785</b>	<b>\$ 2,623,393</b>	<b>\$ 4,755,956</b>	<b>\$ 4,898,682</b>	<b>\$ 7,102,741</b>	<b>\$ 7,522,075</b>

**Long-term Debt.** At the end of the current fiscal year, the County had total long-term debt outstanding of \$3,395,716.

	Installment and Other Debt					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
2010 refunding bonds	\$ -	\$ -	\$ 3,160,000	\$ 3,595,000	\$ 3,160,000	\$ 3,595,000
Compensated absences	235,716	217,102	-	-	235,716	217,102
<b>Total long-term debt</b>	<b>\$ 235,716</b>	<b>\$ 217,102</b>	<b>\$ 3,160,000</b>	<b>\$ 3,595,000</b>	<b>\$ 3,395,716</b>	<b>\$ 3,812,102</b>

The County's total long-term debt decreased by \$416,386 (10.9 percent) during the current fiscal year. The net decrease was mainly attributable to annual principal payments.

### Economic Factors and Next Year's Budget and Rates

- The County anticipates similar revenue for 2014.
- Fringe benefits including health insurance and retirement costs are expected to increase during 2014.
- The County expects the energy costs to remain high for heat, electric and gasoline.

The County considered these factors in preparing the County's budget for the 2014 fiscal year.

### Requests for Information

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



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## **BASIC FINANCIAL STATEMENTS**

# KALKASKA COUNTY, MICHIGAN

## Statement of Net Position

December 31, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
<b>Assets</b>				
Cash and cash equivalents	\$ 4,536,356	\$ 3,090,642	\$ 7,626,998	\$ 735,757
Receivables, net	2,233,888	2,147,634	4,381,522	479,960
Internal balances	64,799	(64,799)	-	-
Inventories	6,600	2,009	8,609	393,817
Prepays	197,676	2,682	200,358	57,340
Net other postemployment benefits asset	238,610	-	238,610	-
Capital assets not being depreciated	281,327	-	281,327	4,980,549
Capital assets being depreciated, net	2,065,458	4,755,956	6,821,414	13,622,136
<b>Total assets</b>	<b>9,624,714</b>	<b>9,934,124</b>	<b>19,558,838</b>	<b>20,269,559</b>
<b>Liabilities</b>				
Payables and accrued liabilities	334,614	43,770	378,384	310,172
Unearned revenue	154	-	154	-
Notes payable	-	195,000	195,000	-
Long-term liabilities:				
Due within one year	47,143	425,000	472,143	82,562
Due in more than one year	188,573	2,735,000	2,923,573	639,459
Net other postemployment benefits liability	-	-	-	1,220,771
<b>Total liabilities</b>	<b>570,484</b>	<b>3,398,770</b>	<b>3,969,254</b>	<b>2,252,964</b>
<b>Deferred inflows of resources</b>				
Taxes levied for a subsequent period	730,247	715,643	1,445,890	-
<b>Net position</b>				
Net investment in capital assets	2,346,785	1,595,956	3,942,741	17,977,195
Restricted for:				
County road commission	-	-	-	39,400
Public safety	1,007,817	-	1,007,817	-
Health and welfare	979,835	-	979,835	-
Community and economic development	768,347	-	768,347	-
Recreation and culture	323,551	-	323,551	-
Other purposes	50,875	-	50,875	-
State revenue sharing	481,191	-	481,191	-
Other state mandated programs	50,604	-	50,604	-
Unrestricted	2,314,978	4,223,755	6,538,733	-
<b>Total net position</b>	<b>\$ 8,323,983</b>	<b>\$ 5,819,711</b>	<b>\$ 14,143,694</b>	<b>\$ 18,016,595</b>

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Activities

For the Year Ended December 31, 2013

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 182,611	\$ -	\$ -	\$ -	\$ (182,611)
Judicial	1,102,695	68,295	187,037	-	(847,363)
General government	1,489,583	982,672	567,130	-	60,219
Public safety	3,334,958	667,431	271,208	-	(2,396,319)
Public works	81,529	-	-	-	(81,529)
Health and welfare	1,358,486	482,952	166,854	-	(708,680)
Community and economic development	402,671	-	-	-	(402,671)
Recreation and culture	398,870	143,742	10,430	-	(244,698)
Other	539,962	-	-	-	(539,962)
Total governmental activities	8,891,365	2,345,092	1,202,659	-	(5,343,614)
Business-type activities:					
Tax collection	148,056	591,934	-	-	443,878
Sportsplex	701,560	318,283	-	-	(383,277)
Total business-type activities	849,616	910,217	-	-	60,601
Total primary government	\$ 9,740,981	\$ 3,255,309	\$ 1,202,659	\$ -	\$ (5,283,013)
Component unit					
Road Commission	\$ 4,635,368	\$ 58,688	\$ 3,218,582	\$ 947,166	\$ (410,932)

continued...

# KALKASKA COUNTY, MICHIGAN

## Statement of Activities

For the Year Ended December 31, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
<b>Changes in net position</b>				
Net revenue (expense)	\$ (5,343,614)	\$ 60,601	\$ (5,283,013)	\$ (410,932)
General revenues:				
Property taxes	4,963,029	703,895	5,666,924	-
Convention facility tax	108,267	-	108,267	-
Unrestricted investment earnings	22,136	10,299	32,435	-
Rents	131,486	-	131,486	-
Gain on sale of capital assets	-	-	-	130,650
Other revenue	214,030	-	214,030	-
Total general revenues	5,438,948	714,194	6,153,142	130,650
Change in net position	95,334	774,795	870,129	(280,282)
Net position beginning of year, as restated	8,228,649	5,044,916	13,273,565	18,296,877
Net position, end of year	\$ 8,323,983	\$ 5,819,711	\$ 14,143,694	\$ 18,016,595

concluded

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

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# KALKASKA COUNTY, MICHIGAN

## Balance Sheet

Governmental Funds  
December 31, 2013

	General Fund	Housing	Commission on Aging	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 1,203,607	\$ 24,418	\$ 702,064	\$ 2,606,304	\$ 4,536,393
Receivables:					
Accounts	8,927	-	-	98,018	106,945
Taxes	500,048	-	352,159	352,164	1,204,371
Loans	-	721,882	-	-	721,882
Due from other governments	113,960	-	-	86,730	200,690
Due from other funds	86,255	-	21,776	113,635	221,666
Inventories	6,600	-	-	-	6,600
Prepays	160,891	-	-	36,785	197,676
<b>Total assets</b>	<b>\$ 2,080,288</b>	<b>\$ 746,300</b>	<b>\$ 1,075,999</b>	<b>\$ 3,293,636</b>	<b>\$ 7,196,223</b>
<b>Liabilities</b>					
Negative equity in pooled cash	\$ -	\$ -	\$ -	\$ 37	\$ 37
Accounts payable	127,684	-	-	31,909	159,593
Accrued liabilities	121,009	-	-	45,104	166,113
Due to other governments	8,908	-	-	-	8,908
Due to other funds	124,918	-	6,623	25,326	156,867
Unearned revenue	-	154	-	-	154
<b>Total liabilities</b>	<b>382,519</b>	<b>154</b>	<b>6,623</b>	<b>102,376</b>	<b>491,672</b>
<b>Deferred inflows of resources</b>					
Taxes levied for a subsequent period	-	-	365,124	365,123	730,247
Unavailable revenue - loans receivable	-	721,882	-	-	721,882
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>721,882</b>	<b>365,124</b>	<b>365,123</b>	<b>1,452,129</b>
<b>Fund balances</b>					
Nonspendable	167,491	-	-	36,785	204,276
Restricted	29,002	24,264	704,252	2,147,566	2,905,084
Committed	371,714	-	-	642,359	1,014,073
Assigned	231,296	-	-	-	231,296
Unassigned	898,266	-	-	(573)	897,693
<b>Total fund balances</b>	<b>1,697,769</b>	<b>24,264</b>	<b>704,252</b>	<b>2,826,137</b>	<b>5,252,422</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,080,288</b>	<b>\$ 746,300</b>	<b>\$ 1,075,999</b>	<b>\$ 3,293,636</b>	<b>\$ 7,196,223</b>

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

## KALKASKA COUNTY, MICHIGAN

### Reconciliation

Fund Balances for Governmental Funds  
To Net Position of Governmental Activities  
December 31, 2013

Fund balances - total governmental funds	\$ 5,252,422
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Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.

Capital assets not being depreciated	281,327
Capital assets being depreciated, net	2,065,458

Certain assets do not represent current financial resources, and therefore are not reported in the funds.

Net other postemployment benefits asset	238,610
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The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.

Deferred loans receivable	721,882
---------------------------	---------

Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Compensated absences	(235,716)
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Net position of governmental activities	<u>\$ 8,323,983</u>
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The accompanying notes are an integral part of these basic financial statements.



# KALKASKA COUNTY, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2013

	General Fund	Housing	Commission on Aging	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 4,243,042	\$ -	\$ 360,048	\$ 359,939	\$ 4,963,029
Licenses and permits	47,447	-	-	201,102	248,549
Intergovernmental:					
Federal	69,657	58,796	5,572	178,757	312,782
State	605,740	-	-	278,449	884,189
Local	-	-	-	116,455	116,455
Charges for services	932,355	-	455,061	522,032	1,909,448
Fines and forfeitures	2,870	-	-	184,225	187,095
Interest	19,366	59	832	1,879	22,136
Rents	93,281	-	-	38,205	131,486
Other	95,446	22,456	-	93,628	211,530
<b>Total revenues</b>	<b>6,109,204</b>	<b>81,311</b>	<b>821,513</b>	<b>1,974,671</b>	<b>8,986,699</b>
<b>Expenditures</b>					
Current:					
Legislative	182,611	-	-	-	182,611
Judicial	813,437	-	-	246,562	1,059,999
General government	1,659,650	-	-	4,330	1,663,980
Public safety	2,368,241	-	-	803,262	3,171,503
Public works	75,248	-	-	-	75,248
Health and welfare	253,363	-	805,519	294,164	1,353,046
Community and economic development	232,873	113,145	-	-	346,018
Recreation and culture	-	-	-	376,919	376,919
Other	539,962	-	-	-	539,962
<b>Total expenditures</b>	<b>6,125,385</b>	<b>113,145</b>	<b>805,519</b>	<b>1,725,237</b>	<b>8,769,286</b>
Revenues over (under) expenditures	(16,181)	(31,834)	15,994	249,434	217,413
<b>Other financing sources (uses)</b>					
Transfers in	413,086	-	-	128,195	541,281
Transfers out	(128,195)	-	-	(413,086)	(541,281)
<b>Total other financing sources (uses)</b>	<b>284,891</b>	<b>-</b>	<b>-</b>	<b>(284,891)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>268,710</b>	<b>(31,834)</b>	<b>15,994</b>	<b>(35,457)</b>	<b>217,413</b>
Fund balances, beginning of year, as restated	1,429,059	56,098	688,258	2,861,594	5,035,009
<b>Fund balances, end of year</b>	<b>\$ 1,697,769</b>	<b>\$ 24,264</b>	<b>\$ 704,252</b>	<b>\$ 2,826,137</b>	<b>\$ 5,252,422</b>

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

## KALKASKA COUNTY, MICHIGAN

### Reconciliation

Net Changes in Fund Balances of Governmental Funds  
To Change in Net Position of Governmental Activities  
For the Year Ended December 31, 2013

Net change in fund balances - total governmental funds	\$ 217,413
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Purchases of capital assets	59,786
Depreciation expense	(336,394)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in deferred loans receivable	(56,653)
Change in the accrual for compensated absences	(18,614)
Change in the net other postemployment benefits asset	229,796

Change in net position of governmental activities	<u>\$ 95,334</u>
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The accompanying notes are an integral part of these basic financial statements.

# KALKASKA COUNTY, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 4,241,916	\$ 4,241,916	\$ 4,243,042	\$ 1,126
Licenses and permits	40,470	40,470	47,447	6,977
Intergovernmental:				
Federal	66,400	66,400	69,657	3,257
State	602,632	602,632	605,740	3,108
Charges for services	977,822	977,822	932,355	(45,467)
Fines and forfeitures	4,000	4,000	2,870	(1,130)
Interest	30,650	30,650	19,366	(11,284)
Rents	124,415	124,415	93,281	(31,134)
Other	519,008	519,008	95,446	(423,562)
<b>Total revenues</b>	<b>6,607,313</b>	<b>6,607,313</b>	<b>6,109,204</b>	<b>(498,109)</b>
<b>Expenditures</b>				
Current:				
Legislative	146,500	146,500	182,611	36,111
Judicial	932,128	932,128	813,437	(118,691)
General government	2,026,773	2,026,773	1,659,650	(367,123)
Public safety	2,677,927	2,677,927	2,368,241	(309,686)
Public works	91,945	91,945	75,248	(16,697)
Health and welfare	281,555	281,555	253,363	(28,192)
Community and economic development	307,350	307,350	232,873	(74,477)
Other	514,300	514,300	539,962	25,662
<b>Total expenditures</b>	<b>6,978,478</b>	<b>6,978,478</b>	<b>6,125,385</b>	<b>(853,093)</b>
Revenues over (under) expenditures	(371,165)	(371,165)	(16,181)	354,984
<b>Other financing sources (uses)</b>				
Transfers in	639,454	639,454	413,086	(226,368)
Transfers out	(230,723)	(230,723)	(128,195)	102,528
<b>Total other financing sources (uses)</b>	<b>408,731</b>	<b>408,731</b>	<b>284,891</b>	<b>(123,840)</b>
<b>Net change in fund balances</b>	<b>37,566</b>	<b>37,566</b>	<b>268,710</b>	<b>231,144</b>
Fund balances, beginning of year, as restated	1,429,059	1,429,059	1,429,059	-
<b>Fund balances, end of year</b>	<b>\$ 1,466,625</b>	<b>\$ 1,466,625</b>	<b>\$ 1,697,769</b>	<b>\$ 231,144</b>

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

## KALKASKA COUNTY, MICHIGAN

### Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Housing Special Revenue Fund  
For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Intergovernmental:				
Federal	\$ 143,000	\$ 143,000	\$ 58,796	\$ (84,204)
Interest	40	40	59	19
Other	24,000	24,000	22,456	(1,544)
<b>Total revenues</b>	167,040	167,040	81,311	(85,729)
<b>Expenditures</b>				
Current:				
Community and economic development	167,040	167,040	113,145	(53,895)
<b>Net change in fund balances</b>	-	-	(31,834)	(31,834)
Fund balances, beginning of year	56,098	56,098	56,098	-
<b>Fund balances, end of year</b>	<u>\$ 56,098</u>	<u>\$ 56,098</u>	<u>\$ 24,264</u>	<u>\$ (31,834)</u>

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

## KALKASKA COUNTY, MICHIGAN

### Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Commission on Aging Special Revenue Fund  
For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 575,947	\$ 575,947	\$ 360,048	\$ (215,899)
Intergovernmental:				
Federal	-	-	5,572	5,572
Charges for services	410,919	410,919	455,061	44,142
Interest	-	-	832	832
<b>Total revenues</b>	<b>986,866</b>	<b>986,866</b>	<b>821,513</b>	<b>(165,353)</b>
<b>Expenditures</b>				
Current:				
Health and welfare	986,866	986,866	805,519	(181,347)
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>15,994</b>	<b>15,994</b>
Fund balances, beginning of year	688,258	688,258	688,258	-
<b>Fund balances, end of year</b>	<b>\$ 688,258</b>	<b>\$ 688,258</b>	<b>\$ 704,252</b>	<b>\$ 15,994</b>

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Net Position

Proprietary Funds

December 31, 2013

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,487,443	\$ 603,199	\$ 3,090,642
Receivables:			
Taxes	1,212,304	690,235	1,902,539
Interest and administrative fees	245,095	-	245,095
Due from other funds	1,985,888	29,041	2,014,929
Inventories	-	2,009	2,009
Prepaid expenses	-	2,682	2,682
Total current assets	5,930,730	1,327,166	7,257,896
Noncurrent assets:			
Capital assets being depreciated, net	-	4,755,956	4,755,956
<b>Total assets</b>	5,930,730	6,083,122	12,013,852
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	-	11,630	11,630
Accrued liabilities	-	8,436	8,436
Accrued interest payable	-	23,704	23,704
Due to other funds	1,658,002	421,726	2,079,728
Long-term debt, current portion	-	425,000	425,000
Notes payable	195,000	-	195,000
Total current liabilities	1,853,002	890,496	2,743,498
Noncurrent liabilities:			
Long-term debt, net of current portion	-	2,735,000	2,735,000
<b>Total liabilities</b>	1,853,002	3,625,496	5,478,498
<b>Deferred inflows of resources</b>			
Taxes levied for a subsequent period	-	715,643	715,643
<b>Net position</b>			
Net investment in capital assets	-	1,595,956	1,595,956
Unrestricted	4,077,728	146,027	4,223,755
<b>Total net position</b>	\$ 4,077,728	\$ 1,741,983	\$ 5,819,711

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
<b>Operating revenues</b>			
Charges for services	\$ 283,211	\$ 318,283	\$ 601,494
Interest and penalties	308,723	-	308,723
<b>Total operating revenues</b>	<b>591,934</b>	<b>318,283</b>	<b>910,217</b>
<b>Operating expenses</b>			
Salaries	-	183,095	183,095
Fringe benefits	-	46,779	46,779
Depreciation	-	142,726	142,726
Other operating expenses	148,056	223,815	371,871
<b>Total operating expenses</b>	<b>148,056</b>	<b>596,415</b>	<b>744,471</b>
<b>Operating income (loss)</b>	<b>443,878</b>	<b>(278,132)</b>	<b>165,746</b>
<b>Nonoperating revenues (expenses)</b>			
Taxes	-	703,895	703,895
Interest revenue	10,098	201	10,299
Interest expense	-	(105,145)	(105,145)
<b>Total nonoperating revenues (expenses)</b>	<b>10,098</b>	<b>598,951</b>	<b>609,049</b>
<b>Change in net position</b>	<b>453,976</b>	<b>320,819</b>	<b>774,795</b>
<b>Net position, beginning of year</b>	<b>3,623,752</b>	<b>1,421,164</b>	<b>5,044,916</b>
<b>Net position, end of year</b>	<b>\$ 4,077,728</b>	<b>\$ 1,741,983</b>	<b>\$ 5,819,711</b>

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
<b>Cash flows from operating activities</b>			
Receipts from customers and users	\$ 631,021	\$ 322,422	\$ 953,443
Payments to vendors	(78,041)	(227,583)	(305,624)
Payments for personnel services	-	(227,845)	(227,845)
<b>Net cash provided by (used in) operating activities</b>	<b>552,980</b>	<b>(133,006)</b>	<b>419,974</b>
<b>Cash flows from noncapital financing activities</b>			
Local tax levy received	-	694,088	694,088
Payments from (to) other funds	31,452	(24,646)	6,806
Proceeds from notes payable	1,000,000	-	1,000,000
Principal paid on notes payable	(859,475)	-	(859,475)
<b>Net cash provided by noncapital financing activities</b>	<b>171,977</b>	<b>669,442</b>	<b>841,419</b>
<b>Cash flows from capital and related financing activities</b>			
Principal paid on long-term debt	-	(435,000)	(435,000)
Interest paid on long-term debt	-	(99,416)	(99,416)
<b>Net cash used in capital and related financing activities</b>	<b>-</b>	<b>(534,416)</b>	<b>(534,416)</b>
<b>Cash flows from investing activities</b>			
Interest received	10,098	201	10,299
<b>Net increase in cash and cash equivalents</b>	<b>735,055</b>	<b>2,221</b>	<b>737,276</b>
Cash and cash equivalents, beginning of year	1,752,388	600,978	2,353,366
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,487,443</b>	<b>\$ 603,199</b>	<b>\$ 3,090,642</b>

continued...



# KALKASKA COUNTY, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
<b>Cash flows from operating activities</b>			
Operating income (loss)	\$ 443,878	\$ (278,132)	\$ 165,746
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	142,726	142,726
Change in:			
Taxes receivable	284,181	4,139	288,320
Interest receivable	(245,094)	-	(245,094)
Prepaid expenses	70,015	(673)	69,342
Accounts payable	-	(3,095)	(3,095)
Accrued liabilities	-	2,029	2,029
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 552,980</b>	<b>\$ (133,006)</b>	<b>\$ 419,974</b>

concluded

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2013

	Agency Funds	Other Post- employment Benefits Trust
<b>Assets</b>		
Cash and cash equivalents	\$ 338,705	\$ 171,956
Investments:		
Money market funds	-	12,401
Equity mutual funds	-	22,618
Debt mutual funds	-	28,155
Prepays	-	4,258
Due from other governments	6,582	-
<b>Total assets</b>	<b>\$ 345,287</b>	<b>239,388</b>
<b>Liabilities</b>		
Due to other governments	\$ 19,554	-
Undistributed collections	274,664	-
Other liabilities	51,069	-
<b>Total liabilities</b>	<b>\$ 345,287</b>	<b>-</b>
<b>Net Position Held in Trust For Postemployment Benefits</b>		<b>\$ 239,388</b>

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

## KALKASKA COUNTY, MICHIGAN

### Statement of Changes in Fiduciary Net Position

Other Postemployment Benefits Trust

December 31, 2013

#### Additions

Employer contributions	\$ 279,103
Retiree contributions	3,859
Investment earnings	<u>1,174</u>

#### Total additions

284,136

#### Deductions

Benefit payments	<u>44,748</u>
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#### Change in net position

239,388

Net position, beginning of year

-

Net position, end of year

\$ 239,388

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

## **NOTES TO FINANCIAL STATEMENTS**

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### **Reporting Entity**

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

#### *Blended Component Unit*

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

#### *Discretely Presented Component Unit*

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### *Jointly Governed Organizations*

**North Central Michigan Mental Health Department** (the "Community Mental Health") - The County, in conjunction with the counties of Otsego, Emmet, Charlevoix and Cheboygan, has created the Community Mental Health. The Board of the Community Mental Health is composed of 12 members from each of the boards of the participating governments. The funding formula for the Community Mental Health operations is in accordance with an agreement approved by all of the member counties and the local contribution was frozen, by statute, at the amount contributed in year 2002. Kalkaska County appropriated \$61,875 to the Community Mental Health for the year ended December 31, 2013.

**46th Judicial Trial Court** (the "Court") - The Court has responsibilities for Kalkaska, Crawford and Otsego counties. The funding formula is based upon the previous year's caseload. For the year ended December 31, 2013 the funding was 29.2%, 30.2%, and 40.6% for Crawford, Kalkaska and Otsego County, respectively. Each county is responsible for the court budget as it related to its own court expenses. The remaining expenses that are shared by Kalkaska, Crawford and Otsego counties are incurred by and paid by Crawford County with the two other counties appropriating funds based on the funding formula. Kalkaska County appropriated \$20,673 to the Court for the year ended December 31, 2013.

### *Government-wide and Fund Financial Statements*

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

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

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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

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

The County reports the following major governmental funds:

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

The *housing special revenue fund* provides housing assistance in the form of low or zero interest loans to low income citizens within the County to provide housing or housing repairs.

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

The County reports the following major proprietary funds:

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

The *Sportsplex Fund* operates an ice arena/swimming pool facility.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

Additionally, the County reports the following fund types:

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

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

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

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

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

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

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

### **Assets, Liabilities, Deferred Inflows of Resources, and Equity**

#### ***Cash and Cash Equivalents***

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



# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

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

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

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

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

Bankers' acceptances of United States banks.

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

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

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

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

### ***Receivables and Payables***

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

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

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

### ***Other Assets***

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Capital Assets

Capital assets, which include property, buildings and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items acquired or constructed since 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets having a useful life in excess of two years and whose costs exceed \$10,000. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at their market value as of the donation date.

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

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

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

	Years
Buildings and improvements	7-40
Land improvements	7-20
Machinery and equipment	5-20

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

Road Commission - Discretely Presented Component Unit

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, and similar items), are reported in the financial statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of three years. However, all equipment items (regardless of purchase price or useful life) that have a Schedule C code and rate (Michigan Department of Transportation's "Equipment Rental Rates" report) are capitalized. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are valued at estimated fair market value at the date of donation.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

Capital assets are depreciated using the sum-of-the-years-digits method for road equipment and the straight-line method for all other assets over the following useful lives:

	Years
Buildings	30-50
Road equipment	5-8
Shop equipment	10
Engineering equipment	4-10
Office equipment	4-10
Infrastructure - roads	5-30
Infrastructure - bridges	12-50

### *Compensated Absences*

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

### *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### *Fund Equity*

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

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

### *Interfund Transactions*

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

### *Use of Estimates*

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 2. BUDGETARY INFORMATION

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

1. During the month of July, budget worksheets, which list 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.
2. Public hearings are conducted at the County Building to obtain taxpayer comments.
3. Prior to December 31st, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
4. Budget amendments are made by the County Commission as the need arises during the year.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations lapse at year end.
7. The original budget was amended during the year in compliance with the County procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the final budgetary expenditures as amended by the County Commission.

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, MICHIGAN

## Notes to Financial Statements

### 3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the County were adopted on the department level basis for all governmental funds, which is the legal level of control. During the year ended December 31, 2013 the County incurred expenditures which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
Legislative:			
County board	\$ 146,500	\$ 182,611	\$ 36,111
Public safety:			
Community corrections	67,298	71,861	4,563
Zero tolerance	19,822	24,271	4,449
Hunters safety class	-	235	235
Other:			
Other appropriation	123,500	279,103	155,603

### 4. DEFICIT FUND EQUITY

At December 31, 2013, the Law Library special revenue fund had a deficit fund balance of \$573.

### 5. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2013:

	Primary Government	Component Units	Totals
<b>Statement of Net Position</b>			
Cash and cash equivalents	\$ 7,626,998	\$ 735,757	\$ 8,362,755
<b>Statement of Fiduciary Net Position</b>			
Other postemployment benefit trust fund:			
Cash and cash equivalents	171,956	-	171,956
Investments	63,174	-	63,174
Other fiduciary funds:			
Cash and cash equivalents	338,705	-	338,705
<b>Total</b>	<b>\$ 8,200,833</b>	<b>\$ 735,757</b>	<b>\$ 8,936,590</b>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### Deposits and investments

#### Primary Government

##### Bank deposits:

Checking and savings accounts (pooled)	\$ 7,441,388
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##### Certificates of deposit:

Due within one year	193,877
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Due in more than one year	21,131
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Pooled investments, at fair value	299,766
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##### Other postemployment benefit trust fund:

Checking and savings accounts (pooled)	171,956
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Investments	63,174
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Cash on hand	9,541
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<b>Total Primary Government</b>	<b>8,200,833</b>
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#### Road Commission Component Unit

##### Bank deposits:

Checking and savings accounts	735,757
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<b>Total deposits and investments</b>	<b>\$ 8,936,590</b>
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*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, \$7,303,121 of the bank balance (excluding Road Commission) of \$8,034,544 was exposed to custodial credit risk because it was uninsured and uncollateralized. The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution with which it deposits County funds and assesses the level of risk of each institution; only those institutions with an acceptable level are used as depositories.

*Custodial Credit Risk - Investments.* Following is a summary of the County's investments as of December 31, 2013:

#### Pooled investments:

##### U.S. Corporate debt security

Matures 4/21/2014; S&P rated A1; zero coupon	\$ 299,766
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## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2013, none of the County's investments were exposed to custodial credit risk inasmuch as all investments are held in the name of the County.

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

#### ***Other Postemployment Benefits Trust Fund***

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

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

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

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

Following is a summary of pension and other postemployment benefits trust investments as of December 31, 2013:

	Interest Rate	Maturity	Morningstar Rating	Market Value
Mutual funds:				
Money market funds	0.01%	n/a	n/a	\$ 12,401
Equity funds	n/a	n/a	Four star	22,618
Debt funds	Various	Various	Three star	12,388
Debt funds	Various	Various	Four star	15,767
				<u>\$ 63,174</u>



# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

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

The amounts reported as money market funds in the statement of plan net position are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of the other postemployment benefits trust account as of December 31, 2013 was \$12,401, which was fully insured.

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

## 6. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	\$ 106,945	\$ -	\$ -
Taxes - current	1,204,371	690,235	-
Taxes - delinquent	-	1,212,304	-
Interest and administrative fees	-	245,095	-
Loans	721,882	-	-
Due from other governments	200,690	-	479,960
	<u>\$ 2,233,888</u>	<u>\$ 2,147,634</u>	<u>\$ 479,960</u>

## 7. PAYABLES

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 159,593	\$ 11,630	\$ 229,348
Accrued liabilities	166,113	8,436	30,824
Accrued interest payable	-	23,704	-
Due to other governments	8,908	-	50,000
	<u>\$ 334,614</u>	<u>\$ 43,770</u>	<u>\$ 310,172</u>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2013, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 86,255	\$ 124,918
Commission on Aging fund	21,776	6,623
Nonmajor governmental funds	113,635	25,326
Delinquent property tax	1,985,888	1,658,002
Sportsplex	29,041	421,726
	<u>\$ 2,236,595</u>	<u>\$ 2,236,595</u>

For the year ended December 31, 2013, interfund transfers consisted of the following:

Transfers Out	Transfers in		
	General fund	Nonmajor governmental funds	Totals
General fund	\$ -	\$ 128,195	\$ 128,195
Nonmajor governmental funds	413,086	-	413,086
	<u>\$ 413,086</u>	<u>\$ 128,195</u>	<u>\$ 541,281</u>

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 9. CAPITAL ASSETS

#### Primary government

Capital asset activity for the primary government for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 281,327	\$ -	\$ -	\$ -	\$ 281,327
Capital assets, being depreciated:					
Buildings and improvements	6,435,409	10,135	-	-	6,445,544
Land improvements	303,780	-	-	-	303,780
Machinery & equipment	3,541,038	49,651	-	-	3,590,689
	<u>10,280,227</u>	<u>59,786</u>	<u>-</u>	<u>-</u>	<u>10,340,013</u>
Less accumulated depreciation for:					
Buildings and improvements	(4,883,648)	(142,499)	-	-	(5,026,147)
Land improvements	(187,162)	(9,689)	-	-	(196,851)
Machinery & equipment	(2,867,351)	(184,206)	-	-	(3,051,557)
	<u>(7,938,161)</u>	<u>(336,394)</u>	<u>-</u>	<u>-</u>	<u>(8,274,555)</u>
Total capital assets being depreciated, net	<u>2,342,066</u>	<u>(276,608)</u>	<u>-</u>	<u>-</u>	<u>2,065,458</u>
<b>Governmental activities</b>					
capital assets, net	<u>\$ 2,623,393</u>	<u>\$ (276,608)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,346,785</u>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 6,657,514	\$ -	\$ -	\$ -	\$ 6,657,514
Furniture, fixtures & equipment	277,312	-	-	-	277,312
	<u>6,934,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,934,826</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,786,509)	(131,025)	-	-	(1,917,534)
Furniture, fixtures & equipment	(249,635)	(11,701)	-	-	(261,336)
	<u>(2,036,144)</u>	<u>(142,726)</u>	<u>-</u>	<u>-</u>	<u>(2,178,870)</u>
Total capital assets being depreciated, net	<u>\$ 4,898,682</u>	<u>\$ (142,726)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,755,956</u>

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

### Depreciation of governmental activities by function

Judicial	\$ 48,650
General government	63,125
Public safety	186,251
Public works	7,157
Health and welfare	6,199
Recreation and culture	25,012
	<u>\$ 336,394</u>

### Depreciation of business-type activities by function

Enterprise funds:	
Sportsplex	<u>\$ 142,726</u>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### Discretely presented component unit

Capital assets activity for the Road Commission component unit for the year ended December 31, 2013, was as follows:

	Beginning Balance (as restated)	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land and improvements	\$ 92,464	\$ -	\$ -	\$ -	\$ 92,464
Infrastructure land improvements	4,665,710	222,375	-	-	4,888,085
	<u>4,758,174</u>	<u>222,375</u>	<u>-</u>	<u>-</u>	<u>4,980,549</u>
Capital assets, being depreciated:					
Buildings and improvements	612,211	7,790	(11,474)	-	608,527
Road equipment	3,938,417	954,830	(520,535)	-	4,372,712
Shop equipment	61,525	-	-	-	61,525
Office equipment	64,775	964	-	-	65,739
Infrastructure - bridges	2,862,035	31,157	-	-	2,893,192
Infrastructure - roads	20,544,211	627,686	(121,671)	-	21,050,226
	<u>28,083,174</u>	<u>1,622,427</u>	<u>(653,680)</u>	<u>-</u>	<u>29,051,921</u>
Less accumulated depreciation for:					
Buildings and improvements	(563,610)	(12,853)	11,474	-	(564,989)
Road equipment	(3,518,315)	(268,746)	520,535	-	(3,266,526)
Shop equipment	(45,873)	(4,945)	-	-	(50,818)
Office equipment	(60,110)	(1,829)	-	-	(61,939)
Infrastructure - bridges	(862,975)	(61,909)	-	-	(924,884)
Infrastructure - roads	(9,648,162)	(1,034,138)	121,671	-	(10,560,629)
	<u>(14,699,045)</u>	<u>(1,384,420)</u>	<u>653,680</u>	<u>-</u>	<u>(15,429,785)</u>
Total capital assets being depreciated, net	<u>13,384,129</u>	<u>238,007</u>	<u>-</u>	<u>-</u>	<u>13,622,136</u>
Road Commission capital assets, net	<u>\$ 18,142,303</u>	<u>\$ 460,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,602,685</u>

### *Restatement*

The book value of capital assets and the net position of the Road Commission as of January 1, 2013 was increased by \$358,083 to properly account for bridges and the associated accumulated depreciation that had not been recorded in prior years.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 10. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 217,102	\$ 65,757	\$ (47,143)	\$ 235,716	\$ 47,143
<b>Business-type Activities</b>					
2010 Refunding Bonds, \$4,385,000, due in annual installments of \$400,000 to \$495,000 through April 2020, interest at 2.0 to 3.603%, payable semi-annually, secured by the full faith and credit of the County	\$ 3,595,000	\$ -	\$ (435,000)	\$ 3,160,000	\$ 425,000
<b>Component Unit - Road Commission</b>					
Capital Lease	\$ -	\$ 687,730	\$ (62,240)	\$ 625,490	\$ 62,240
Compensated absences	117,731	-	(21,200)	96,531	20,322
<b>Total component unit</b>	<u>\$ 117,731</u>	<u>\$ 687,730</u>	<u>\$ (83,440)</u>	<u>\$ 722,021</u>	<u>\$ 82,562</u>

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

Year Ended December 31,	Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest
2014	\$ 425,000	\$ 90,035	\$ 62,240	\$ 8,263
2015	415,000	79,807	50,326	20,178
2016	400,000	68,985	52,012	18,491
2017	450,000	56,297	53,755	16,749
2018	495,000	41,560	407,157	14,716
2019-2020	975,000	34,543	-	-
	<u>\$ 3,160,000</u>	<u>\$ 371,227</u>	<u>\$ 625,490</u>	<u>\$ 78,397</u>

The compensated absences liability attributable to the governmental activities will be liquidated by the general fund.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 11. NOTE PAYABLE

At December 31, 2013, the County has \$195,000 outstanding on a \$1,000,000 revenue note (general obligation limited tax note) dated May 31, 2013. The note, which has a variable interest rate, adjusted at the beginning of each calendar month, of the greater of (a) 0.65% above LIBOR or (b) 0.65%, matures June 1, 2014. 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 the note payable for the year ended December 31, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance
General Obligation Tax Notes:				
Series 2012	\$ 54,475	\$ -	\$ (54,475)	\$ -
Series 2013	-	1,000,000	(805,000)	195,000
	<u>\$ 54,475</u>	<u>\$ 1,000,000</u>	<u>\$ (859,475)</u>	<u>\$ 195,000</u>

### 12. 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.

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### *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, 2013, there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

### **Component Unit - 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, 2013, 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 three years.

## **13. PROPERTY TAXES**

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

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



# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

The taxable value of real and personal property for 2013, for which revenue was recognized in the general fund, was \$732,513,650. The general operating tax rate for this levy was 5.4562 mills. The taxable value of real and personal property for 2012, for which revenue was recognized in all other funds, was \$718,082,296. The tax rates for these voted levies were 0.5000 mills assessed for services provided to senior citizens, 0.1168 mills assessed for recycling services, 0.1333 mills assessed for animal control, 0.7100 mills assessed for debt service and 0.5000 mills assessed for recreation services.

### 14. CONTINGENT LIABILITIES

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

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

### 15. PENSION BENEFIT PLANS

#### Primary Government

#### Defined Benefit Pension Plan

*Plan Description.* The County participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

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.

## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

**Funding Policy.** The County is required to contribute at an actuarially determined rate; the current monthly payment ranges from 6.67% to 45.87% of annual covered payroll. In the case of Teamsters Union employees and the Court Division, the County is required to contribute flat monthly amounts of \$3,547 and \$4,269, respectively. County employees are required to contribute 0% to 5.0% of their pay to the Plan, depending on the bargaining unit the employee resides under. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County, depending on the MERS contribution program adopted by the County.

**Annual Pension Cost.** For the year ended December 31, 2013, the County's annual pension cost of \$482,648 for MERS was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, and (b) projected salary increases of 0% to 4.5% per year compounded annually, with 3% to 4% attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, the date of the latest actuarial valuation, was 25 years.

**Funded Status and Funding Progress .** As of December 31, 2013, the most recent actuarial valuation date, the Plan was 82 percent funded. The actuarial accrued liability (AAL) for benefits was \$17,779,073, and the actuarial value of assets was \$14,563,080, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,215,993. The covered payroll (annual payroll of active employees covered by the Plan) was \$3,309,586, and the ratio of the UAAL to the covered payroll was 97 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Three-Year Trend Information			
Years Ended December 31,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2011	\$ 323,730	100%	\$ -
2012	323,348	100%	-
2013	482,648	100%	-

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### Conversion to Hybrid Defined Contribution Pension Plan

During 2013, the County began the conversion process to the MERS Hybrid Defined Contribution Pension Plan. The defined benefit plan will be closed to new participants and all defined benefit plan participants will be converted to the hybrid plan by May 14, 2014. The County contributed \$6,331 to this plan during the year ended December 31, 2013.

### **Component Unit - Road Commission**

### Defined Benefit Pension Plan

*Plan Description.* The Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

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 year ended December 31, 2012. 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.

*Funding Policy.* The Road Commission is required to contribute at an actuarially determined rate; the current rate ranges from a flat rate of \$25,204 for union employees to 17.26% of annual covered payroll for administrative staff. The Road Commission requires the union employees to contribute 12.55% of their annual salary to the plan with 10% being applied to the unfunded pension liability. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

*Annual Pension Cost.* For the year ended December 31, 2013, the Road Commission's annual pension cost of \$317,827 was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, the date of the latest actuarial valuation, was 26 years.

## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

*Funded Status and Funding Progress.* As of December 31, 2012, the most recent actuarial valuation date, the Plan was 49 percent funded. The actuarial accrued liability (AAL) for benefits was \$8,905,567, and the actuarial value of assets was \$4,394,418, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,511,149. The covered payroll (annual payroll of active employees covered by the Plan) was \$846,990, and the ratio of the UAAL to the covered payroll was 533 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Three-Year Trend Information			
Years Ended December 31,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2010	\$ 323,730	100%	\$ -
2011	323,348	100%	-
2012	317,827	100%	-

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

### 16. OTHER POSTEMPLOYMENT 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 postemployment health care benefits to employees who retired from Kalkaska County. Eligibility is based on the following: Commission on Aging, Kaliseum and other Teamsters may be eligible at age 55 with 25 years of service or age 60 with 15 years of service. Sheriff employees may be eligible with 25 years of service or age 60 with 15 years of service.

*Funding Policy.* At December 31, 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><u>97</u></u>

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

## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

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

Annual required contribution	\$ 49,109
Interest on net OPEB asset	(353)
Adjustment to annual required contribution	<u>551</u>
Net OPEB cost (expense)	49,307
Contributions made	<u>(279,103)</u>
Change in net OPEB asset	(229,796)
Net OPEB asset, beginning of year	<u>(8,814)</u>
Net OPEB asset, end of year	<u><u>\$ (238,610)</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for 2013 and the previous two years were as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
2011	\$ 52,979	97.24%	\$ (15,703)
2012	50,080	86.24%	(8,814)
2013	49,307	566.05%	(238,610)

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

*Funded Status and Funding Progress.* As of December 31, 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.

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.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

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

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

The December 31, 2012 valuation was based on a discount rate of 4 percent. The actuarial assumptions included a post-retirement interest rate of 4 percent, annual healthcare cost increase of 8% for 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 a closed basis. The remaining amortization period at December 31, 2012 was 27 years.

### Component Unit - Road Commission

*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 postemployment health care benefits to employees who retired from the Road Commission. The Road Commission has the authority to establish the funding policy for the Plan and to amend the obligations of both the Road Commission and members. The Road Commission's postemployment health care benefits are as follows:

For any employee retiring after January 1, 2011, who is between the ages of 55 and 65 and has at least 20 years of service at retirement, the Road Commission will provide single person coverage and contributions at the same level and in the same amount as for active employees until the retiree reaches age 65. Any increase over the CAP amount, set by the State law, of \$5,692.50 shall be paid by the retiree.

Any employee age 62 to 65, hired prior to October 25, 2004, who retires under the MERS Pension Plan with at least ten (10) years of service, will be eligible for health insurance benefits for the retiree and his/her spouse. Benefit levels and Road Commission contributions will be no greater than those provided to active employees. Any employee age 62 to 65 hired on or after October 25, 2004, who retires under the MERS Pension Plan with at least twenty (20) years of service, will be eligible for health insurance benefits for the retiree and his/her spouse. Benefit levels and employer contributions will be no greater than those provided to active employees. Any increase over the CAP amount, set by the State law, of \$5,692.50 shall be paid by the retiree.

## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

Any employee hired prior to October 25, 2004, who had at least ten (10) years of service at retirement and who has reached the age of 65 years, will be eligible for single subscriber health insurance coverage, complementary, for the retiree only until the retiree's death, or the retiree is covered under a health insurance policy from another employer. Benefit levels and the Road Commission's contribution shall not exceed those provided on behalf of active employees. At the retiree's death, all employer contributions toward health insurance benefits will cease. If a retiree is covered by an alternate health insurance plan, he/she will be ineligible to receive Employer contributions for health insurance. Employees hired after October 25, 2004 must have at least twenty (20) years of services in order to be eligible for the benefits set forth in this subsection. Any increase over the CAP amount, set by the State law, of \$5,692.50 shall be paid by the retiree.

*Funding Policy.* The Road Commission has no obligation to make contributions in advance of when the premiums are due for payment. Additional amounts to prefund benefits may be determined annually by the Board of Road Commissioners. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due, which amounted to \$87,782 in 2013. For the year ended December 31, 2013, the Road Commission made no additional contributions to the Plan. Retirees receiving benefits were not required to make contributions to the Plan, and therefore, no retiree contributions were made.

The contribution requirements of Road Commission plan members are established and may be amended by Road Commission. At December 31, 2013, membership of the plan consisted of the following:

Active plan members	14
Retirees and beneficiaries receiving benefits	<u>19</u>
Total plan members	<u><u>33</u></u>

*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	65,746
Adjustment to annual required contribution	<u>-</u>
Net OPEB cost (expense)	369,327
Contributions made	<u>(87,782)</u>
Increase in net OPEB obligation	281,545
Net OPEB obligation, beginning of year	<u>939,226</u>
Net OPEB obligation, end of year	<u><u>\$ 1,220,771</u></u>

## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 and the previous two years was as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2011	\$ 351,421	45.00%	\$ 679,323
2012	351,134	26.00%	939,226
2013	369,327	23.77%	1,220,771

*Funded Status and Funding Progress.* As of December 31, 2012, the most recent actuarial valuation date, the Plan was 0 percent funded. The actuarial accrued liability for benefits was \$2,678,185, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,678,185. The covered payroll (annual payroll of active employees covered by the Plan) was \$900,076, and the ratio of the UAAL to the covered payroll was 298 percent.

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, 2013, 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, 2013 was thirty years.



# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 17. FUND BALANCES - GOVERNMENTAL FUNDS

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

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Inventories	\$ 6,600	\$ -	\$ -	\$ -	\$ 6,600
Prepays	160,891	-	-	36,785	197,676
Total nonspendable	167,491	-	-	36,785	204,276
Restricted for:					
Judicial	-	-	-	47,294	47,294
Public safety	6,801	-	-	1,022,841	1,029,642
Public works	-	-	-	-	-
Community and economic development	22,201	24,264	-	-	46,465
Health and welfare	-	-	704,252	273,986	978,238
Recreation and culture	-	-	-	322,254	322,254
State revenue sharing	-	-	-	481,191	481,191
Capital improvements	-	-	-	-	-
Total restricted	29,002	24,264	704,252	2,147,566	2,905,084
Committed for:					
Public safety	-	-	-	104,197	104,197
Self insurance	329,210	-	-	-	329,210
Capital improvements	34,508	-	-	317,211	351,719
Historic preservation	-	-	-	201,283	201,283
Other purposes	7,996	-	-	19,668	27,664
Total committed	371,714	-	-	642,359	1,014,073
Assigned for:					
Equipment replacement	193,476	-	-	-	193,476
Other purposes	37,820	-	-	-	37,820
Total assigned	231,296	-	-	-	231,296
Unassigned	898,266	-	-	(573)	897,693
<b>Total fund balances, governmental funds</b>	<b>\$ 1,697,769</b>	<b>\$ 24,264</b>	<b>\$ 704,252</b>	<b>\$ 2,826,137</b>	<b>\$ 5,252,422</b>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 18. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of December 31, 2013, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 281,327	\$ -	\$ 4,980,549
Capital assets being depreciated, net	2,065,458	4,755,956	13,622,136
	<u>2,346,785</u>	<u>4,755,956</u>	<u>18,602,685</u>
Related debt:			
Total bonds and loans payable	-	3,160,000	-
Capital lease	-	-	625,490
	<u>-</u>	<u>3,160,000</u>	<u>625,490</u>
Net investment in capital assets	<u>\$ 2,346,785</u>	<u>\$ 1,595,956</u>	<u>\$ 17,977,195</u>

### 19. SUBSEQUENT EVENT

On May 27, 2014, the County issued \$1,000,000 of General Obligation Tax Notes, Series 2014, interest payable monthly at the greater of (a) the rate that is equal to the sum of (i) sixty-five hundredths of one percent (.65%) per annum plus (ii) the one month London Interbank Offer Rate (LIBOR), as published in the *Wall Street Journal* on the first business day of each month, or (b) seventy one hundredths of one percent (.70%) per annum (initial monthly rate .8005%). The note matures on June 1, 2015.

### 20. RESTATEMENTS

Beginning fund balance for the general fund was increased by \$492,248 as several separate funds, previously reported as special revenue funds, were rolled into the general fund as they no longer qualified as special revenue funds under the definition set forth in Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This change had no net effect on the beginning fund balance of governmental funds in total.

Beginning fund balance for the general fund and net position of governmental activities was increased by \$71,865 to recognize certain assets previously reported in an agency fund that actually belonged to the general fund.

Beginning net position of governmental activities was increased by \$542,737 to correct an overstatement of the net other postemployment benefits obligation in the prior reporting period.

In addition, beginning net position of governmental activities was increased by \$778,535 to properly recognize revenues from long-term loans receivables, that had been incorrectly deferred in the prior year.

Finally, as disclosed in Note 9, beginning net position of the Road Commission discretely presented component unit was increased by \$538,083 to properly account for bridges and the associated accumulated depreciation that had not been recorded in prior years.



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## **REQUIRED SUPPLEMENTARY INFORMATION**

# KALKASKA COUNTY, MICHIGAN

## Required Supplementary Information

### Municipal Employees' Retirement System & Other Postemployment Benefits Plan

#### MERS Agent Multiple-Employer Defined Benefit Pension Plan

##### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2008	\$ 12,196,987	\$ 13,786,940	\$ 1,589,953	88.5%	\$ 3,499,935	45.4%
12/31/2009	12,710,495	14,710,195	1,999,700	86.4%	3,678,155	54.4%
12/31/2010	13,389,467	15,526,197	2,136,730	86.2%	3,499,935	61.1%
12/31/2011	13,888,683	16,398,307	2,509,624	84.7%	3,376,009	74.3%
12/31/2012	14,160,271	17,003,544	2,843,273	83.3%	3,343,555	85.0%
12/31/2013	14,563,080	17,779,073	3,215,993	81.9%	3,309,586	97.2%

##### Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2008	\$ 432,537	100%
2009	541,324	100%
2010	322,738	100%
2011	323,730	100%
2012	323,348	100%
2013	482,648	100%

#### Single-Employer Other Postemployment Healthcare Benefit Plan

##### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	\$ -	\$ 619,540	\$ 619,540	0.0%	n/a	n/a
12/31/2012	-	533,923	533,923	0.0%	\$ 3,156,876	16.9%

##### Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2011	\$ 52,979	97.2%
2012	50,080	86.2%
2013	49,109	568.3%

# KALKASKA COUNTY, MICHIGAN

## Required Supplementary Information

Road Commission Municipal Employees' Retirement System & Other Postemployment Benefits Plan

### MERS Agent Multiple-Employer Defined Benefit Pension Plan

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2010	\$ 4,621,053	\$ 8,740,462	\$ 4,119,409	52.9%	\$ 922,354	446.6%
12/31/2011	4,538,801	9,003,467	4,464,666	50.4%	913,020	489.0%
12/31/2012	4,394,418	8,905,567	4,511,149	49.3%	846,990	532.6%

#### Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2010	\$ 323,730	100%
2011	323,348	100%
2012	317,827	100%

### Single-Employer Other Postemployment Healthcare Benefit Plan

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2008	\$ -	\$ 5,449,968	\$ 5,449,968	0.0%	\$ 1,137,947	478.9%
12/31/2011	-	3,300,192	3,300,192	0.0%	875,354	377.0%
12/31/2012	-	2,678,185	2,678,185	0.0%	900,076	297.6%

#### Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2011	\$ 317,530	49.6%
2012	303,581	30.1%
2013	303,581	28.9%

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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**



# KALKASKA COUNTY, MICHIGAN

## Schedule of Expenditures by Activity

Budget and Actual

General Fund

For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Legislative:				
County board	\$ 146,500	\$ 146,500	\$ 182,611	\$ 36,111
Judicial:				
Judicial control	899,465	899,465	788,428	(111,037)
46th circuit trial court/ friend of the court	26,263	26,263	21,235	(5,028)
Jury board	6,400	6,400	3,774	(2,626)
Total judicial	932,128	932,128	813,437	(118,691)
General government:				
Elections	39,525	39,525	18,144	(21,381)
Accounting	135,988	135,988	118,361	(17,627)
County clerk	172,625	172,625	151,896	(20,729)
Equalization	155,427	155,427	144,503	(10,924)
Prosecuting attorney	406,652	406,652	354,583	(52,069)
Register of deeds	173,367	173,367	159,692	(13,675)
Survey Remonumentation	30,611	30,611	30,611	-
Treasurer	170,507	170,507	124,930	(45,577)
County government	113,313	113,313	97,819	(15,494)
Building and grounds	441,940	441,940	360,064	(81,876)
Various accounts	186,818	186,818	99,047	(87,771)
Total general government	2,026,773	2,026,773	1,659,650	(367,123)
Public safety:				
Law enforcement	805,516	805,516	707,566	(97,950)
Sheriff fleet	141,753	141,753	122,772	(18,981)
Court civil transports	106,959	106,959	93,803	(13,156)
Administration	350,911	350,911	303,975	(46,936)
Community corrections	67,298	67,298	71,861	4,563
Domestic violence grant	22,775	22,775	22,249	(526)
Marine law enforcement	10,276	10,276	6,363	(3,913)
Snowmobile law enforcement	15,267	15,267	10,754	(4,513)
Secondary road patrol PA 416 grant	79,727	79,727	66,525	(13,202)
DNR ORV grant	23,579	23,579	20,331	(3,248)
Zero tolerance	19,822	19,822	24,271	4,449
Hunters safety class	-	-	235	235
Corrections Department/ Jail	926,683	926,683	825,956	(100,727)
Zoning	89,520	89,520	74,536	(14,984)
Emergency preparedness	17,841	17,841	17,044	(797)
Total public safety	2,677,927	2,677,927	2,368,241	(309,686)

continued...

# KALKASKA COUNTY, MICHIGAN

## Schedule of Expenditures by Activity

Budget and Actual

General Fund

For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public works:				
Public works	\$ 91,945	\$ 91,945	\$ 75,248	\$ (16,697)
Health and welfare:				
Health department	248,355	248,355	222,444	(25,911)
Veteran's affairs	33,200	33,200	30,919	(2,281)
Total health and welfare	281,555	281,555	253,363	(28,192)
Community and economic development:				
MSU extension	76,413	76,413	73,581	(2,832)
Other appropriation	230,937	230,937	159,292	(71,645)
Total community and economic development	307,350	307,350	232,873	(74,477)
Other:				
Fringe	390,800	390,800	260,859	(129,941)
Other appropriation	123,500	123,500	279,103	155,603
Total other	514,300	514,300	539,962	25,662
Total expenditures	\$ 6,978,478	\$ 6,978,478	\$ 6,125,385	\$ (853,093)

concluded

# KALKASKA COUNTY, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2013

	Special Revenue Funds			
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Friend of the Court
<b>Assets</b>				
Cash and cash equivalents	\$ 11,453	\$ 7,327	\$ 13,647	\$ 7,717
Receivables:				
Accounts	-	-	-	-
Taxes	-	-	-	-
Due from other governments	-	-	-	24,755
Due from other funds	-	-	-	23,221
Prepays	-	60	-	3,581
<b>Total assets</b>	<u>\$ 11,453</u>	<u>\$ 7,387</u>	<u>\$ 13,647</u>	<u>\$ 59,274</u>
<b>Liabilities</b>				
Negative equity in pooled cash	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	1,269	37	2,102
Accrued liabilities	-	-	-	6,296
Due to other funds	-	-	-	1
<b>Total liabilities</b>	<u>-</u>	<u>1,269</u>	<u>37</u>	<u>8,399</u>
<b>Deferred inflows of resources</b>				
Taxes levied for a subsequent period	-	-	-	-
<b>Fund balances</b>				
Nonspendable	-	60	-	3,581
Restricted	11,453	-	-	47,294
Committed	-	6,058	13,610	-
Unassigned	-	-	-	-
<b>Total fund balances</b>	<u>11,453</u>	<u>6,118</u>	<u>13,610</u>	<u>50,875</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 11,453</u>	<u>\$ 7,387</u>	<u>\$ 13,647</u>	<u>\$ 59,274</u>

Special Revenue Funds							
Animal Control Donation	Extension Strong Family Safe Child	Courthouse Preservation	Building Inspection	911 Central Dispatch	ROD Equipment/ Technology	Recycling	Corrections Officers Training
\$ 76,776	\$ 2,336	\$ 203,036	\$ 50,928	\$ 596,065	\$ 33,084	\$ 79,846	\$ 2,156
-	-	-	-	98,018	-	-	-
-	-	-	-	-	-	82,230	-
-	-	-	-	32,963	-	-	-
-	-	-	4,147	70,105	-	4,018	-
-	-	-	2,309	25,549	-	-	-
<u>\$ 76,776</u>	<u>\$ 2,336</u>	<u>\$ 203,036</u>	<u>\$ 57,384</u>	<u>\$ 822,700</u>	<u>\$ 33,084</u>	<u>\$ 166,094</u>	<u>\$ 2,156</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
68	-	1,753	1,178	6,322	-	3,089	-
-	-	-	5,602	11,741	-	3,366	-
-	-	-	-	-	1,167	-	-
68	-	1,753	6,780	18,063	1,167	6,455	-
-	-	-	-	-	-	85,256	-
-	-	-	2,309	25,549	-	-	-
76,708	2,336	-	48,295	779,088	31,917	74,383	2,156
-	-	201,283	-	-	-	-	-
-	-	-	-	-	-	-	-
76,708	2,336	201,283	50,604	804,637	31,917	74,383	2,156
<u>\$ 76,776</u>	<u>\$ 2,336</u>	<u>\$ 203,036</u>	<u>\$ 57,384</u>	<u>\$ 822,700</u>	<u>\$ 33,084</u>	<u>\$ 166,094</u>	<u>\$ 2,156</u>

continued...

# KALKASKA COUNTY, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2013

	Special Revenue Funds			
	Community Corrections Plan	Animal Control	Law Library	County Library
<b>Assets</b>				
Cash and cash equivalents	\$ 15,001	\$ 12,642	\$ -	\$ 341,286
Receivables:				
Accounts	-	-	-	-
Taxes	-	93,852	-	176,082
Due from other governments	26,012	-	-	-
Due from other funds	-	5,291	-	688
Prepays	-	921	-	1,297
<b>Total assets</b>	<u>\$ 41,013</u>	<u>\$ 112,706</u>	<u>\$ -</u>	<u>\$ 519,353</u>
<b>Liabilities</b>				
Negative equity in pooled cash	\$ -	\$ -	\$ 37	\$ -
Accounts payable	-	739	536	5,316
Accrued liabilities	-	2,866	-	7,924
Due to other funds	-	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>3,605</u>	<u>573</u>	<u>13,240</u>
<b>Deferred inflows of resources</b>				
Taxes levied for a subsequent period	-	97,305	-	182,562
<b>Fund balances</b>				
Nonspendable	-	921	-	1,297
Restricted	41,013	10,875	-	322,254
Committed	-	-	-	-
Unassigned	-	-	(573)	-
<b>Total fund balances</b>	<u>41,013</u>	<u>11,796</u>	<u>(573)</u>	<u>323,551</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 41,013</u>	<u>\$ 112,706</u>	<u>\$ -</u>	<u>\$ 519,353</u>

Special Revenue Funds							Capital Project Funds
Inmate Programs & Services	Portable Breathalyzer Testing	Police Hiring Supplement	Child Care	Veterans Trust	Marine Clearwater Township	Revenue Sharing Reserve	County Building
\$ 9,131	\$ 91,460	\$ 15,007	\$ 193,270	\$ 2,584	\$ 19,000	\$ 481,191	\$ 48,903
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	3,000	-	-	-	-
-	-	3,506	2,659	-	-	-	-
-	-	1,471	1,597	-	-	-	-
<u>\$ 9,131</u>	<u>\$ 91,460</u>	<u>\$ 19,984</u>	<u>\$ 200,526</u>	<u>\$ 2,584</u>	<u>\$ 19,000</u>	<u>\$ 481,191</u>	<u>\$ 48,903</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,292	7,796	412	-	-	-
-	-	4,484	2,825	-	-	-	-
-	-	-	8	-	-	-	-
-	-	5,776	10,629	412	-	-	-
-	-	-	-	-	-	-	-
-	-	1,471	1,597	-	-	-	-
9,131	-	-	188,300	2,172	19,000	481,191	-
-	91,460	12,737	-	-	-	-	48,903
-	-	-	-	-	-	-	-
<u>9,131</u>	<u>91,460</u>	<u>14,208</u>	<u>189,897</u>	<u>2,172</u>	<u>19,000</u>	<u>481,191</u>	<u>48,903</u>
<u>\$ 9,131</u>	<u>\$ 91,460</u>	<u>\$ 19,984</u>	<u>\$ 200,526</u>	<u>\$ 2,584</u>	<u>\$ 19,000</u>	<u>\$ 481,191</u>	<u>\$ 48,903</u>

continued...

# KALKASKA COUNTY, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2013

	Capital Project Funds		
	County Law Library Building	County Building Authority	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 292,458	\$ -	\$ 2,606,304
Receivables:			
Accounts	-	-	98,018
Taxes	-	-	352,164
Due from other governments	-	-	86,730
Due from other funds	-	-	113,635
Prepays	-	-	36,785
<b>Total assets</b>	<u>\$ 292,458</u>	<u>\$ -</u>	<u>\$ 3,293,636</u>
<b>Liabilities</b>			
Negative equity in pooled cash	\$ -	\$ -	\$ 37
Accounts payable	-	-	31,909
Accrued liabilities	-	-	45,104
Due to other funds	24,150	-	25,326
<b>Total liabilities</b>	<u>24,150</u>	<u>-</u>	<u>102,376</u>
<b>Deferred inflows of resources</b>			
Taxes levied for a subsequent period	-	-	365,123
<b>Fund balances</b>			
Nonspendable	-	-	36,785
Restricted	-	-	2,147,566
Committed	268,308	-	642,359
Unassigned	-	-	(573)
<b>Total fund balances</b>	<u>268,308</u>	<u>-</u>	<u>2,826,137</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 292,458</u>	<u>\$ -</u>	<u>\$ 3,293,636</u>

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# KALKASKA COUNTY, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended December 31, 2013

	Special Revenue Funds			
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Friend of the Court
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental:				
Federal	1,280	-	-	177,477
State	-	-	-	-
Local	-	-	-	9,560
Charges for services	-	597	196	17,869
Fines and forfeitures	-	-	-	-
Interest	-	-	-	-
Rents	-	20,308	17,897	-
Other	-	-	-	-
<b>Total revenues</b>	<u>1,280</u>	<u>20,905</u>	<u>18,093</u>	<u>204,906</u>
<b>Expenditures</b>				
Current:				
Judicial	-	-	-	202,938
General government	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	25,911	15,551	-
<b>Total expenditures</b>	<u>-</u>	<u>25,911</u>	<u>15,551</u>	<u>202,938</u>
Revenues over (under) expenditures	<u>1,280</u>	<u>(5,006)</u>	<u>2,542</u>	<u>1,968</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	2,700	-	24,793
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>2,700</u>	<u>-</u>	<u>24,793</u>
<b>Net change in fund balances</b>	<u>1,280</u>	<u>(2,306)</u>	<u>2,542</u>	<u>26,761</u>
Fund balances, beginning of year	<u>10,173</u>	<u>8,424</u>	<u>11,068</u>	<u>24,114</u>
<b>Fund balances, end of year</b>	<u>\$ 11,453</u>	<u>\$ 6,118</u>	<u>\$ 13,610</u>	<u>\$ 50,875</u>

Special Revenue Funds							
Animal Control Donation	Extension Strong Family Safe Child	Courthouse Preservation	Building Inspection	911 Central Dispatch	ROD Equipment/ Technology	Recycling	Corrections Officers Training
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,247	\$ -
-	-	-	201,102	-	-	-	-
-	-	-	-	-	-	-	-
-	7,910	-	-	158,406	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	441,999	-	22,339	3,804
-	-	50,426	-	-	-	-	-
-	-	-	-	256	-	-	-
-	-	-	-	-	-	-	-
23,515	-	-	-	-	30,897	-	-
23,515	7,910	50,426	201,102	600,661	30,897	105,586	3,804
-	-	36,437	-	-	-	-	-
-	-	-	-	-	-	-	-
5,543	7,001	-	161,968	379,884	30,352	-	6,895
-	-	-	-	-	-	129,222	-
-	-	-	-	-	-	-	-
5,543	7,001	36,437	161,968	379,884	30,352	129,222	6,895
17,972	909	13,989	39,134	220,777	545	(23,636)	(3,091)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
17,972	909	13,989	39,134	220,777	545	(23,636)	(3,091)
58,736	1,427	187,294	11,470	583,860	31,372	98,019	5,247
\$ 76,708	\$ 2,336	\$ 201,283	\$ 50,604	\$ 804,637	\$ 31,917	\$ 74,383	\$ 2,156

continued...

# KALKASKA COUNTY, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended December 31, 2013

	Special Revenue Funds			
	Community Corrections Plan	Animal Control	Law Library	County Library
<b>Revenues</b>				
Taxes	\$ -	\$ 95,109	\$ -	\$ 181,583
Licenses and permits	-	-	-	-
Intergovernmental:				
Federal	-	-	-	-
State	27,157	-	-	10,430
Local	-	-	2,500	-
Charges for services	-	3,868	-	9,150
Fines and forfeitures	-	-	-	133,799
Interest	-	-	-	776
Rents	-	-	-	-
Other	-	-	-	109
<b>Total revenues</b>	<b>27,157</b>	<b>98,977</b>	<b>2,500</b>	<b>335,847</b>
<b>Expenditures</b>				
Current:				
Judicial	-	-	7,187	-
General government	-	-	-	-
Public safety	975	94,490	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	-	-	311,307
<b>Total expenditures</b>	<b>975</b>	<b>94,490</b>	<b>7,187</b>	<b>311,307</b>
Revenues over (under) expenditures	26,182	4,487	(4,687)	24,540
<b>Other financing sources (uses)</b>				
Transfers in	-	-	2,500	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>2,500</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>26,182</b>	<b>4,487</b>	<b>(2,187)</b>	<b>24,540</b>
Fund balances, beginning of year	14,831	7,309	1,614	299,011
<b>Fund balances, end of year</b>	<b>\$ 41,013</b>	<b>\$ 11,796</b>	<b>\$ (573)</b>	<b>\$ 323,551</b>

Special Revenue Funds							Capital Project Funds
Inmate Programs & Services	Portable Breathalyzer Testing	Police Hiring Supplement	Child Care	Veterans Trust	Marine Clearwater Township	Revenue Sharing Reserve	County Building
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	74,546	-	-	-	-
-	-	76,455	16,000	6,940	5,000	-	-
5,552	16,658	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	408	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	37,577
5,552	16,658	76,455	90,546	6,940	5,000	408	37,577
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	2,878	113,276	-	-	-	-	-
3,864	-	-	145,926	7,277	-	-	7,875
-	-	-	-	-	-	-	-
3,864	2,878	113,276	145,926	7,277	-	-	7,875
1,688	13,780	(36,821)	(55,380)	(337)	5,000	408	29,702
-	-	53,202	45,000	-	-	-	-
-	-	-	-	-	-	(413,086)	-
-	-	53,202	45,000	-	-	(413,086)	-
1,688	13,780	16,381	(10,380)	(337)	5,000	(412,678)	29,702
7,443	77,680	(2,173)	200,277	2,509	14,000	893,869	19,201
\$ 9,131	\$ 91,460	\$ 14,208	\$ 189,897	\$ 2,172	\$ 19,000	\$ 481,191	\$ 48,903

continued...

# KALKASKA COUNTY, MICHIGAN

## Combining Statement of Revenues, Expenditures

and Changes in Fund Balances - Nonmajor Governmental Funds

For the Year Ended December 31, 2013

	Capital Project Funds		
	County Law Library Building	County Building Authority	Total
<b>Revenues</b>			
Taxes	\$ -	\$ -	\$ 359,939
Licenses and permits	-	-	201,102
Intergovernmental:			
Federal	-	-	178,757
State	-	-	278,449
Local	-	-	116,455
Charges for services	-	-	522,032
Fines and forfeitures	-	-	184,225
Interest	437	2	1,879
Rents	-	-	38,205
Other	1,530	-	93,628
<b>Total revenues</b>	<b>1,967</b>	<b>2</b>	<b>1,974,671</b>
<b>Expenditures</b>			
Current:			
Judicial	-	-	246,562
General government	-	4,330	4,330
Public safety	-	-	803,262
Health and welfare	-	-	294,164
Recreation and culture	24,150	-	376,919
<b>Total expenditures</b>	<b>24,150</b>	<b>4,330</b>	<b>1,725,237</b>
Revenues over (under) expenditures	(22,183)	(4,328)	249,434
<b>Other financing sources (uses)</b>			
Transfers in	-	-	128,195
Transfers out	-	-	(413,086)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(284,891)</b>
<b>Net change in fund balances</b>	<b>(22,183)</b>	<b>(4,328)</b>	<b>(35,457)</b>
Fund balances, beginning of year	290,491	4,328	2,861,594
<b>Fund balances, end of year</b>	<b>\$ 268,308</b>	<b>\$ -</b>	<b>\$ 2,826,137</b>

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## KALKASKA COUNTY, MICHIGAN

### Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2013

	Trust & Agency	NPI Wireless Zoning	Sheriff's Commissary	Sheriff Forfeiture	Cemetery Trust
<b>Assets</b>					
Cash and cash equivalents	\$ 278,366	\$ 3,109	\$ 15,313	\$ 6,297	\$ 31,129
Due from other governments	-	-	-	-	-
<b>Total assets</b>	<u>\$ 278,366</u>	<u>\$ 3,109</u>	<u>\$ 15,313</u>	<u>\$ 6,297</u>	<u>\$ 31,129</u>
<b>Liabilities</b>					
Due to other governments	\$ 19,554	\$ -	\$ -	\$ -	\$ -
Undistributed collections	207,743	3,109	15,313	6,297	31,129
Other liabilities	51,069	-	-	-	-
<b>Total liabilities</b>	<u>\$ 278,366</u>	<u>\$ 3,109</u>	<u>\$ 15,313</u>	<u>\$ 6,297</u>	<u>\$ 31,129</u>



Traffic Safety Committee	Library Penal Fine	Animal Control Adoption	Sheriff Trust	Total
\$ 1,374	\$ (6,582)	\$ 6,799	\$ 2,900	\$ 338,705
-	6,582	-	-	6,582
<u>\$ 1,374</u>	<u>\$ -</u>	<u>\$ 6,799</u>	<u>\$ 2,900</u>	<u>\$ 345,287</u>
\$ -	\$ -	\$ -	\$ -	\$ 19,554
1,374	-	6,799	2,900	274,664
-	-	-	-	51,069
<u>\$ 1,374</u>	<u>\$ -</u>	<u>\$ 6,799</u>	<u>\$ 2,900</u>	<u>\$ 345,287</u>



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## **INTERNAL CONTROL AND COMPLIANCE**

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**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***

November 5, 2014

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **County of Kalkaska, Michigan** (the "County"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 5, 2014. Our report includes a reference to other auditors who audited the financial statements of the Kalkaska County Road Commission, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses, and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-FS-01 through -09 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-FS-10 and 2013-FS-11 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-FS-12.

### **County of Kalkaska, Michigan's Response to Findings**

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

### **Purpose of this Report**

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

A handwritten signature in dark ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-01 - Material Audit Adjustments

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

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

**Condition.** During our audit, we identified and proposed certain material adjustments (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. These adjustments included entries to adjust delinquent property tax receivables, long-term debt in the enterprise fund and to properly report an other postemployment benefit trust fund.

**Cause.** This condition was the result of various unrelated and decentralized oversights in the process of properly closing the County's books and records.

**Effect.** As a result of this condition, the County's accounting records were initially misstated by amounts material to certain individual opinion units.

**Recommendation.** Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments.

**View of Responsible Officials.** Management is contracting with an outside party to assist with year-end procedures and identifying inappropriate balances to reduce the number of necessary audit adjustments.

# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-02 - Material Prior Period Adjustments

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

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

**Condition.** During our audit, we identified and proposed certain material prior period adjustments (which were approved and posted by management) to adjust the County's general ledger equity accounts to the appropriate beginning balances. Prior period adjustments were made to: 1) adjust general fund balance to roll several former special revenue funds into the general fund, as they no longer qualified as special revenue funds under the definition set forth in Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 2) to recognize general fund revenue for amounts inappropriately accounted for in an agency fund, 3) adjust net position of governmental activities for the prior year overstatement of the net other postemployment benefit obligation, and 4) adjust net position of governmental activities for under recognition of prior year revenues related to long-term loans receivable.

**Cause.** This condition was the result of various unrelated and decentralized oversights in the process of properly closing the County's books and records in the prior year.

**Effect.** As a result of this condition, the County's accounting records were initially misstated by amounts material to certain individual opinion units.

**Recommendation.** Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments.

**View of Responsible Officials.** Management realizes these prior period adjustments were due mostly to a change in auditing firms and does not expect this to be an issue in the future.

## KALKASKA COUNTY, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2013

#### 2013-FS-03 - Preparation of Financial Statements in Accordance with GAAP

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

**Criteria.** The County is required to prepare financial statements in accordance with generally accepted accounting principles (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 in the form of financial statements, including the related footnotes and other disclosures (i.e., external financial reporting.)

**Condition.** As is the case with many smaller and medium-sized entities, the County has historically relied on its independent external auditors to assist in the preparation of the 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 than to incur the time and expense of obtaining the 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.** Management has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Client 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.



# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-04 - Segregation of Incompatible Duties

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

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

**Condition.** As is the case with many counties of similar size, the County lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. We noted specific instances where segregation of duties was not optimal:

- Cash deposits were made by an individual that is not independent of the receipts posting and preparation of the deposit slip.
- Deposits were not agreed to the subsidiary detail and the amount posted to the general ledger by an employee independent of the deposit.
- Investment reconciliations were not subject to independent review and approval.
- Bank accounts and taxes receivable ledgers were not independently reviewed.

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

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

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

**View of Responsible Officials.** The Board is aware of the risks associated with this condition, and has made the determination that given the County's limited resources, full segregation of duties is not feasible at this time for all departments. The County is contracting with an outside party to assist with reviewing monthly information.

# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-05 -Timely/Accurate Completion and Independent Review of Account Reconciliations

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

**Criteria.** Management is responsible for establishing effective internal controls to safeguard the County's assets, and to prevent or detect misstatements to the financial statements.

**Condition.** During the audit we noted several instances in which balance sheet account reconciliations were either not completed in a timely manner, ultimately incorrect and/or not subject to the independent review of a responsible member of management. The following specific items were noted:

- The pooled cash account had not been properly reconciled for all of 2013 and the reconciliation of some cash accounts at December 31, 2013 did not get completed until July 2014.
- There was no reconciliation between the County Controller's office and the Commission on Aging accounting records, as demonstrated by a certificate of deposit that was recorded by the Commission on Aging, but not recorded in the County's general ledger.
- Several other balance sheet accounts had not been reconciled as of year end, including accounts receivable and payable, due to other governments and property taxes receivable (both current and delinquent).
- Those account reconciliations that were prepared did not bear evidence of having been subject to an independent review by a responsible member of management other than the preparer.

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

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

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

**View of Responsible Officials.** Management acknowledges the delinquency in reconciliation of certain accounts. The underlying issues in the accounting program have been resolved so that account reconciliations can be performed in the program. Procedures are being implemented to ensure that all cash balances are reconciled in a timely manner.

# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-06 - Independent Review and Approval of Manual Journal Entries

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

**Criteria.** Management is responsible for establishing effective internal controls to safeguard the County's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the County's records in a way that bypasses normal internal controls. Accordingly, the County should have a system in place to ensure that all journal entries and similar adjustments made to the County's accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

**Condition.** The County's policies and procedures in place during the fiscal year under audit did not require independent review or approval of manual journal entries by an independent member of management other than the preparer. We noted no evidence of review and approval during our testing of manual journal entries.

**Cause.** This condition is the result of management not initially recognizing the importance of establishing such controls.

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

**Recommendation.** We recommend that the County establish a procedure requiring written, independent review and approval for all manual journal entries, even if the transactions are recurring in nature.

**View of Responsible Officials.** Management acknowledges policies and procedures were not in place requiring review or approval of journal entries. Management has established a procedure requiring journal entries be approved by one independent from the preparer of such journal entries.

# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-07 - Capital Asset Records

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

**Criteria.** Management is responsible for maintaining detailed records on capital assets in accordance with generally accepted accounting principles (GAAP).

**Condition.** Our audit identified several issues related to the County's accounting for its capital assets, as follows:

- Several assets, with undepreciated balances that were material to certain opinion units, did not have descriptions, making it difficult to ascertain if the asset's historical cost or remaining useful life were reasonable.
- Several entries described as "Fully Depreciated" did not indicate what classification of asset they represented. In addition, there is some concern as to whether these assets are still held by the County.
- A physical inventory of capital assets has not been taken in many years. In fact, management was not able to determine when the last one was taken.

**Cause.** This condition was caused by various management oversights in the accurate recording of capital assets and updating the asset schedule timely over several accounting periods.

**Effect.** As a result of this condition, the County is exposed to an increased risk that its capital asset records may be misstated and/or that its capital assets may be inadequately safeguarded from loss.

**Recommendation.** We recommend that the County either hire an outside firm to conduct a full inventory count of the County's capital assets or assign the task internally, if practical. Further, we recommend that the County carefully monitor its additions and disposals, and annually update its capital assets records, accordingly.

**View of Responsible Officials.** An outside party has been contracted to maintain the capital asset records going forward. An internal inventory is being conducted.

## KALKASKA COUNTY, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2013

#### 2013-FS-08 - Internal Controls over Long-term Loans Receivable

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

**Criteria.** Management is responsible for establishing effective internal controls to safeguard the County's assets, and to prevent or detect misstatements to the financial statements.

**Condition.** During our testing of long-term loans receivable, we noted that the County Housing Commission did not have sufficient support for many of the loan balances:

- In some cases, a copy of the loan agreement or the associated mortgage was not located in the loan file, but had to be retrieved from the County Register of Deeds.
- In other cases, support for periodic payments was incomplete which did not allow for an accurate assessment of the remaining balance at December 31.
- Some of the loan agreements, although located, did not agree to the amounts from the detailed payment schedule.

**Cause.** This condition was caused by various management oversights in record keeping of loans receivable and updating the loan schedule timely over several accounting periods.

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

**Recommendation.** Given that the future administration of these loans has been outsourced to a third-party with experience in administering this type of program, no additional recommendation is made at this time.

**View of Responsible Officials.** The administration of these loans is outsourced to a third-party. The loan files are being transferred to the County Building where they will be kept. Procedures are being developed to ensure that amounts are reconciled for these loans.

## KALKASKA COUNTY, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2013

#### 2013-FS-09 - Internal Controls over Information Technology - Commission on Aging

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

**Criteria.** Computerized accounting systems should have some type of feature that either prevents the modification of transactions once posted, or provides some type of audit trail for a reviewer to be able to track any changes made to computerized transactions after posting. There should also be controls over computer passwords that require periodic changing of an individual's password and defining employee's responsibility for keeping their individual password confidential.

**Condition.** The accounting software utilized by the Commission on Aging (the "Commission") does not prevent the deletion or modification of posted transactions. To the best of management's knowledge, although there is an audit trail feature available in the software package, it is not currently being utilized. In addition, we noted that although passwords are required for login to the QuickBooks accounting software, these passwords are not changed regularly and evidence suggests that they are being shared between employees.

**Cause.** This condition is the result of a limitation in the software package used by Commission to maintain its accounting records and by the management's lack of understanding of the importance of information technology access controls.

**Effect.** As a result of this condition, the Commission lacks internal controls over the alteration of posted general ledger and other transactions as well as controls over proper access to computerized accounting information. This exposes the Commission to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

**Recommendation.** We recommend that the Commission or the County utilize the "audit trail" feature built into the Commission's accounting software that allows reports to be generated showing any transactions that are altered after initial posting. We further recommend that the Commission provide to the County each month a copy of the prior month's general ledger detail along with a copy of the audit trail report. Lastly, we recommend that the Commission implement policies and procedures requiring that computer passwords be changed on a regular basis and that an individual's password is to remain confidential.

**View of Responsible Officials.** The Commission will implement policies and procedures requiring passwords to be changed and that the audit trail feature be utilized. Monthly general ledger reports will be provided to the Treasurer for account reconciliation.

# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-10 - Internal Controls over Unmet Needs Program - Commission on Aging

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

**Criteria.** Management is responsible for establishing effective internal controls to safeguard the Organization's assets, and to prevent or detect misstatements to the financial statements.

**Condition.** During our review of internal controls for the Commission on Aging, a special revenue fund of the County, we noted the following related to its Unmet Needs Program:

- . Based on our review of policy and procedures, the term "unmet need" is not clearly defined.
- . Current policies and procedures require that a qualifying unmet needs payment be accompanied by a form that is signed by both the Executive Director and Program Coordinator prior to payment. We noted one instance in which this control was bypassed and the unmet needs payment was made directly from petty cash.
- . Unmet needs reimbursements are typically either paid directly to a vendor for payment of a client's expense or are paid to the client on a reimbursement-basis when accompanied by a supporting receipt. We noted several instances in which payments were made directly to a client and were not accompanied by a supporting receipt.

**Cause.** This condition is the result of management not recognizing the importance of establishing such controls.

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

**Recommendation.** We recommend: 1) that the board review this policy to more clearly define what constitutes an unmet need and how the dollar value of the reimbursement is to be determined; 2) that management review procedures over petty cash to ensure that opportunities to bypass controls are eliminated; and 3) that management implement review policies and procedures over cash disbursements to provide reasonable assurance that payments are being used for eligible unmet needs. A key provision of these policies should be to require independent review and approval of supporting documentation prior to all payments.

**View of Responsible Officials.** The Board will implement procedures and policies for the unmet needs program.

# KALKASKA COUNTY, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended December 31, 2013

### 2013-FS-11 - Internal Controls over Cash Account Activity - Commission on Aging

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

**Criteria.** State statutes generally require all accounts in the name of a local government (i.e., using its taxpayer identification number) to be held and controlled by the Treasurer.

**Condition.** Throughout 2013, the County's Commission on Aging (COA) maintained a cash account, using the County's taxpayer identification number which was not under control of the County Treasurer. The COA maintains transaction-level accounting detail separate from the County's general ledger within its Quickbooks software program. During the year, the Treasurer was not provided with bank statements, bank reconciliations, or access to the general ledger detail necessary to maintain an appropriate control over all COA accounts.

**Cause.** This condition is the result of management not recognizing the importance of establishing such controls.

**Effect.** As a result of this condition, the County was not in compliance with State statute necessary to ensure the Treasurer's accountability for all County accounts and underlying activity.

**Recommendation.** Subsequent to the end of the year, the Treasurer was added as a signer on the COA cash account and provided with the year-end bank statement upon request. However, we recommend that the Treasurer be provided with the bank statements, directly from the bank, and reconciliations for this and all COA accounts on a monthly-basis throughout the fiscal year. Additionally, we recommend that the Treasurer be granted access to review transaction-level detail maintained in the COA's Quickbooks software program including accounts payable reports, payroll reports and general ledger detail.

**View of Responsible Officials.** The Treasurer will receive monthly statements from the Commission on Aging accounts directly from the bank. The Treasurer will also work with the Commission on Aging Director to receive monthly reconciliations and be granted access to review transaction-level detail from COA's Quickbooks software including accounts payable reports, payroll reports and general ledger detail.



## KALKASKA COUNTY, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2013

#### 2013-FS-12 - Timely Filing of Audit Reports

**Finding Type.** Material Noncompliance with Laws and Regulations

**Criteria.** Michigan governments are required to file an audit report with the State Department of Treasury within six months after fiscal year end.

**Condition.** The County's audit for the year ended December 31, 2013 was not filed with the State Department of Treasury until after the required deadline.

**Cause.** This condition was caused by management's inability to provide support for certain significant audit areas in a timely manner.

**Effect.** As a result of this condition, the County is exposed to the risk that state funding may be reduced or denied. In addition, the delay has a negative impact on the Board's ability to be effective in its decision making.

**Recommendation.** We recommend that the County take steps to more closely monitor the preparation for the annual audit and that policies and procedures be implemented to make sure that required reports are filed in a timely manner.

**View of Responsible Officials.** • Management is contracting with an outside party to assist with year end procedures and audit preparation assistance to ensure that the County's audit will be filed timely.

**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

November 5, 2014

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County") as of and for the year ended December 31, 2013, and have issued our report thereon dated November 5, 2014. We did not audit the financial statements of the Kalkaska County Road Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate the Kalkaska County Road Commission, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated March 18, 2014, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated November 5, 2014. In addition, we noted certain other matters which are included in Attachment A to this letter.

### Planned Scope and Timing of the Audit

We were not able to adhere to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on June 4, 2014, because audit support for several significant audit risk areas were not provided in a timely manner by management.

### Compliance with All Ethics Requirements Regarding Independence

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

### Qualitative Aspects of the County's Significant Accounting Practices

#### *Significant Accounting Policies*

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

As disclosed in Note 20 to the financial statements, beginning fund balance/net position was restated for the following revisions of accounting policies:

- Beginning fund balance for the general fund was increased by \$492,248 as several separate funds, previously reported as special revenue funds, were rolled into the general fund as they no longer qualified as special revenue funds under the definition set forth in Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- Beginning fund balance for the general fund and net position of governmental activities was increased by \$71,865 to move cash from agency funds that, because it was for use by the County, was properly reported in the general fund.
- Beginning net position of governmental activities was increased by \$542,737 to correct the overstatement of the net other postemployment benefits obligation in the prior reporting period to an amount that was in compliance with standards set forth in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- Beginning net position of governmental activities was increased by \$778,535 to properly recognize revenues from long-term loans receivables. The revenues associated with the long-term loans is properly deferred as "unavailable" in the governmental fund financial statements, but should have been recognized fully at the government-wide statement level.

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

#### *Significant Accounting Estimates*

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

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

#### Significant Difficulties Encountered During the Audit

The audit process was not able to be completed in a timely manner because audit support for several significant audit risk areas were not provided in a timely manner by management, or when provided proved to be insufficient.

#### Uncorrected and Corrected Misstatements

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

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

#### Disagreements with Management

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

### Representations Requested from Management

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

### Management's Consultations with Other Accountants

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

### Other Significant Matters, Findings, or Issues

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

### Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Upcoming Changes in Accounting Standards

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

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

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Loborn LLC". The signature is written in a cursive, flowing style.

# COUNTY OF KALKASKA, MICHIGAN

## Attachment A - Comments and Recommendations

### For the December 31, 2013 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the County's internal control over financial reporting is described in our report, dated November 5, 2014, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated November 5, 2014, on the financial statements of the County of Kalkaska, Michigan.

#### *Internal Controls over Information Technology (IT) Access*

Employees are able to contact the County's IT Contractor to set-up, change and remove users from the network and financial accounting application without independent approval. We recommend that a formal change form be created and a policy implemented that requires the use of this form and also requires the form include signatures of the Department Head and a member of the IT Committee prior to granting the contractor permission to make the change. This form should be forwarded to the contractor as evidence of the approved change.

#### *Escheat Checks*

In testing the outstanding check list, we noted various checks had been outstanding for more than two years. The State of Michigan directs that "holders of unclaimed or uncalled for property (example outstanding checks) can divest themselves of responsibility and accountability for such property by transferring such property to Escheats Division, Department of Treasury." We recommend that any checks that remain outstanding after two years be remitted to the State's Escheats Division. Procedural directions of how to do this are located on the State's website.

#### *Off-Book Cash Accounts*

Certain departments of the County maintain accounts that are under the County's Federal ID number which are not accounted for in the general ledger nor in control of the County Treasurer. These include accounts maintained by the Sherriff commissary, inmate fund, Sheriff employee trust fund and the Commission on Aging. State statutes generally require all accounts in the name of a local government (i.e., using its tax exempt identification number) to be held and controlled by the Treasurer. We recommend that either these accounts be closed, or they be placed under the control of the County Treasurer where appropriate.

#### *Accounting for Jail Commissary Funds and Discretionary Funds*

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

# COUNTY OF KALKASKA, MICHIGAN

## Attachment A - Comments and Recommendations

For the December 31, 2013 Audit

### *Budgetary Control*

The County Board of Commissioners adopted an original budget for 2013, and subsequently approved no amendments thereto. In addition, it was not clear, from the formally adopted budget document whether the Board intended to approve a line-item budget or a budget at the activity level as recommended by the State of Michigan Uniform Budgeting Manual. We recommend that budget amendments be considered throughout the year as expected results change from what was planned when the original budget was adopted. We further recommend that the Board be more explicit in the budget documentation to approve a budget at the activity level so as to not hold itself accountable for individual line-item variances.

### *Petty Cash Account*

Petty cash account balances recorded in the general ledger have not changed for several years. Upon inquiry of various departments, actual petty cash balances varied from balances recorded in the general ledger. We recommend that the Treasurer consult all departments within the County to ensure the accuracy of petty cash account balances in the general ledger. Furthermore, control procedures should be established to consistently document independent review and approval of petty cash reconciliations.

### *Transfers from the Revenue Sharing Reserve Fund*

The County maintains a Revenue Sharing Reserve Fund, which was established in accordance with State law. The use of these funds is restricted by the Michigan Department of Treasury, which annually publishes a schedule of allowable amounts to transfer. The County transferred and expended more than the allowable amount from the Revenue Sharing Reserve Fund to the General Fund during the year. Management indicated that this was done to transfer accumulated interest earnings and an untransferred balance from the prior year. We recommend that the County enact appropriate policies and procedures to provide reasonable assurance of adhering to all applicable laws and regulations.

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# COUNTY OF KALKASKA, MICHIGAN

## Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the December 31, 2013 Audit

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

### **GASB 67 ■ Financial Reporting for Pension Plans**

*Effective 06/15/2014 (your FY 2014)*

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government’s fiscal year, or be rolled forward to that date by the actuary.

Because the County does not maintain its own pension trust fund, we do not expect GASB 67 to have any significant impact on the County at this time.

### **GASB 68 ■ Accounting and Financial Reporting for Pensions**

*Effective 06/15/2015 (your FY 2015)*

This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their “proportionate share” of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide and proprietary fund financial statements. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.



# COUNTY OF KALKASKA, MICHIGAN

## Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the December 31, 2013 Audit

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government's proportionate share of plan.

While GASB 68 is only applicable to pension plans, the GASB has released exposure drafts that would implement similar requirements for other postemployment benefits (e.g., retiree healthcare) within the next few years.

### **GASB 69 ■ Government Combinations and Disposals of Government Operations**

*Effective 12/15/2014 (your FY 2014)*

This standard provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity.

Given the infrequent nature of these types of events, we do not expect this standard to have any impact on the County at this time.

### **GASB 70 ■ Nonexchange Financial Guarantees**

*Effective 06/15/2014 (your FY 2014)*

This standard addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is "more likely than not" that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements.

We do not expect GASB 70 to have any significant impact on the County at this time.

# COUNTY OF KALKASKA, MICHIGAN

## ■ Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the December 31, 2013 Audit

### **GASB 71 ■ Pension Transition for Contributions Made Subsequent to the Measurement Date**

*Effective with the Implementation of GASB 68*

This standard is an amendment to GASB 68, and seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year.

### **2 CFR 200 ■ Uniform Guidance for Federal Awards**

*Cost Principles Effective 12/26/2014; Single Audit Requirements Effective 12/26/2015 (your FY 2015)*

The Office of Management and Budget (OMB) has consolidated seven separate circulars (including administrative requirements, cost principles, and audit requirements) into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed \$750,000 (up from \$500,000). The OMB has indicated that further changes to the single audit will be announced in 2015.

In addition, the Uniform Guidance now explicitly requires grant recipients to have sound internal controls that are consistent with the COSO framework and documented procedures for grant administration. Rehmann is available to assist grant recipients in developing/documenting these policies and procedures in compliance with the new requirements.

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## COUNTY OF KALKASKA, MICHIGAN

### Attachment C - Management Representations For the December 31, 2013 Audit

Following are the written representations that we requested from management.



# KALKASKA COUNTY CLERK

**Deborah Hill**

Clerk of Board of Commissioners  
46th Circuit Court Clerk

November 5, 2104

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

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and each major special revenue fund of the County in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 5, 2014:

## Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 18, 2014, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

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

#### Information Provided

22. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.

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

#### **Supplementary Information in Relation to the Financial Statements as a Whole**

37. With respect to the supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.

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

**Required Supplementary Information**

38. With respect to the required supplementary information accompanying the financial statements:

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

Abraham Yee, Co Clerk 11-5-14  
(Name of Chief Executive Officer and Title)

Valerie Thornburg Co. Treasurer 11-6-14  
(Name of Chief Financial Officer and Title)

# COUNTY OF KALKASKA, MICHIGAN

## Schedule of Adjustments Passed (SOAP)

For the December 31, 2013 Audit

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

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/Expenditures
<b>General fund</b>					
Unreconciled accounts payable	\$ -	\$ (6,813)	\$ -	\$ -	\$ (6,813)
Quarterly CMH appropriation not recorded	-	(15,849)	15,849	-	-
<b>Total general fund</b>	<b>\$ -</b>	<b>\$ (22,662)</b>	<b>\$ 15,849</b>	<b>\$ -</b>	<b>\$ (6,813)</b>
Misstatement as a percentage of total revenue - general fund	0.00%	-0.37%	0.26%	0.00%	-0.11%
<b>Housing Fund</b>					
Estimated understatement of long-term loans receivable (all loans were issued in prior accounting periods)	\$ (8,447)	\$ -	\$ (8,447)	\$ -	\$ -
Misstatement as a percentage of total assets - housing fund	-1.13%	0.00%	-1.13%	0.00%	0.00%
<b>Governmental activities</b>					
Current year effect of beginning balance variance associated with long-term loans receivable.	-	-	44,558	(44,558)	-
<b>Cumulative effect of items noted</b>	<b>\$ (8,447)</b>	<b>\$ (22,662)</b>	<b>\$ 51,960</b>	<b>\$ (44,558)</b>	<b>\$ (6,813)</b>
Misstatement as a percentage of total assets - governmental activities	-0.09%	-0.24%	0.54%	-0.46%	-0.07%
<b>Delinquent Tax Fund</b>					
Current year effect of beginning balance variance associated with delinquent taxes receivable.	-	-	42,440	(42,440)	-
Misstatement as a percentage of total assets - delinquent tax fund	0.00%	0.00%	0.72%	-0.72%	0.00%
<b>Fiduciary Funds</b>					
Projected difference in liabilities	\$ 8,920	\$ 8,920	\$ -	\$ -	\$ -
Misstatement as a percentage of total assets - fiduciary funds	1.38%	1.38%	0.00%	0.00%	0.00%