



VILLAGE OF KALKASKA, MICHIGAN

ANNUAL FINANCIAL REPORT

YEAR ENDED FEBRUARY 29, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Village President
and Members of the Village Council
Village of 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 the Village of Kalkaska, Michigan (the "Village") as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 29, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 11 to the financial statements, during the year ended February 29, 2016, the Village adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result of implementing this pronouncement, the Village's net pension liability has been recognized on the government-wide and proprietary statements and, as discussed in Note 11, the 2015 financial statements have been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining and individual

fund financial statements as listed in the table of contents 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are 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 August 31, 2016 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Grand Rapids, Michigan
August 31, 2016

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Village of Kalkaska, Michigan (The "Village" or "government") we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 26, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of the Village exceeded its liabilities at the close of the most recent fiscal year by \$6,602,319 (net position). Of this amount, \$(1,470,098) represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$1,339,508, an increase of \$138,780 in comparison with the prior year. Approximately 22% of this amount, or \$290,829, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$290,829, or approximately 33% of total general fund expenditures.
- The Village implemented Governmental Accounting Standard Boards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* in 2016. This Statement requires the Village to recognize a net pension liability, deferred outflows of resources (including pension contributions made after the measurement date) and deferred inflows of resources for its participation in MERS, a multiple-employer defined benefit pension plan. The adoption of this Statement had no impact on the Village's governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions. However, the adoption resulted in the restatement of the Village's net position for its governmental activities, business-type activities, and the Villages water and sewer funds as of March 1, 2015 to reflect the reporting of net pension liabilities and deferred outflows of resources for its MERS pension plan in accordance with the provisions of this Statement. Net position of the Village's governmental and business-type activities as of March 1, 2015 was decreased by \$1,323,751 and \$819,054, respectively, reflecting the cumulative change in accounting principle related to the adoption of this Statement. See Note 8 in the notes section of this document for more information regarding the Village's MERS pension plan.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to

financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 Village's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the Village's assets, deferred outflows, and liabilities, with the difference 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 Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village'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 for some items that will only result in cash flows in future fiscal periods (e.g., accrued but unpaid other postemployment benefits and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village 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 Village include general government, police and fire protection, streets, health and welfare, community and economic development, and recreation and culture. The business-type activities of the Village include water and sewer services.

The government-wide financial statements can be found on pages 18 - 19 of this report.

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

The Downtown Development Authority's (component unit) financial statements can be found on pages 68 - 69 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, 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 Village 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 assessing 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 Village maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the major street fund, and the local street fund, which are considered to be major funds. Data from the drug enforcement fund, the justice training fund, and the debt service fund is presented as a separate column as they are considered nonmajor funds.

The Village adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 20 - 23 of this report.

Proprietary Funds. The Village maintains two 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 Village uses enterprises funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions.

The Village uses internal service funds to account for motor vehicle and retiree healthcare costs and allocating the cost to the funds that are using the resources. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

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 water and sewer operations, both of which are considered to be major funds of the Village. The internal service fund data is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 24 - 27 of this report.

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

The fiduciary fund financial statement can be found on page 28 of this report.

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

The notes to the financial statements can be found on pages 30 - 53 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Village's budgetary comparison schedules and the Villages pension and other postemployment benefits plan schedules.

Required supplementary information can be found on pages 55 - 61 of this report.

This report also presents other supplementary information which includes the nonmajor fund combining and individual statements. The combining statements are presented immediately following the required supplementary information on pensions.

Combining and individual fund statements and schedules can be found on pages 63 - 69 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Village, assets and deferred outflows exceeded liabilities by \$6,602,319, at the close of the most recent fiscal year.

Village of Kalkaska
Statement of Net Position as of February 29, 2016 and February 28, 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 1,283,563	\$ 1,396,689	\$ 1,469,755	\$ 1,601,933	\$ 2,753,318	\$ 2,998,622
Accounts Receivable	5,738	17,831	115,450	128,436	121,188	146,267
Due from Other Governments	338,392	171,609	-	14,238	338,392	185,847
Inventories & Land Held for Resale	1,515	1,242	34,607	34,060	36,122	35,302
Prepaid Items	28,316	25,831	8,592	6,270	36,908	32,101
Total Current Assets	1,657,524	1,613,202	1,628,404	1,784,937	3,285,928	3,398,139
<i>Noncurrent Assets</i>						
Restricted Cash	-	-	868,744	858,420	868,744	858,420
Capital Assets, net	3,474,223	3,237,113	8,141,408	8,030,325	11,615,631	11,267,438
Total Assets	5,131,747	4,850,315	10,638,556	10,673,682	15,770,303	15,523,997
DEFERRED OUTFLOWS OF RESOURCES						
<i>Pension Related Deferred Outflows</i>	146,124	18,112	90,413	11,207	236,537	29,319
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	108,426	37,107	38,099	9,515	146,525	46,622
Accrued Payroll Liabilities	22,023	12,431	15,607	10,238	37,630	22,669
Accrued Interest Payable	9,601	5,338	34,988	36,350	44,589	41,688
Current Portion of Long-term Debt	74,204	66,000	120,000	160,000	194,204	226,000
Internal Balances	-	89,441	-	(89,441)	-	-
Total Current Liabilities	214,254	210,317	208,694	126,662	422,948	336,979
<i>Noncurrent Liabilities</i>						
Compensated Absences	14,935	17,491	5,616	4,621	20,551	22,112
Long-term Debt, net	704,409	604,817	4,540,000	4,660,000	5,244,409	5,264,817
Other Postemployment Benefits Obligation	866,386	779,918	372,023	334,894	1,238,409	1,114,812
Net Pension Liability	1,530,948	1,341,863	947,256	830,261	2,478,204	2,172,124
Total Liabilities	3,330,932	2,954,406	6,073,589	5,956,438	9,404,521	8,910,844
NET POSITION						
Net Investment in Capital Assets	2,695,610	2,566,296	3,481,408	3,210,325	6,177,018	5,776,621
Restricted	1,026,655	925,786	868,744	858,420	1,895,399	1,784,206
Unrestricted	(1,775,326)	(1,578,061)	305,228	659,706	(1,470,098)	(918,355)
Total Net Position	\$ 1,946,939	\$ 1,914,021	\$ 4,655,380	\$ 4,728,451	\$ 6,602,319	\$ 6,642,472

By far, the largest portion of the Village's net position (\$6,177,018) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources used 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 Village's net position (\$1,895,399) represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of \$1,470,098 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

A summary of significant changes in assets and liabilities between February 28, 2015 and February 29, 2016 are as follows:

- Unrestricted net position decreased from (\$918,355) as of February 28, 2015 to (\$1,470,098) as of February 29, 2016 as a result of the Village's continuing investment in its infrastructure. This investment led to a corresponding increase of \$348,193 in the Village's net capital assets during the year.
- Due from other governments increased from \$185,847 to \$338,392 as a result of larger amounts due for delinquent real taxes, a state reimbursement for personal property taxes, and a County road millage distribution that was pending as of the most recent fiscal year-end. The state reimbursement for personal property taxes (just over \$19,000) and the County road millage distribution (just under \$40,000) were new revenues sources for the Village during the year.
- The Village's cash decreased by \$245,304 during the current year. This is largely related to the increase in due from other governments and the Village's continued investment in its infrastructure as stated above.

Governmental Activities. Governmental activities increased the Village's net position by \$32,918, compared to an increase of \$904,629 during the prior year. Significant events leading to this change are highlighted as follows:

- Capital grants decreased by \$619,351 because the fiscal year ending February 28, 2015 included a one-time downtown improvement grant of \$696,051. Funding from this grant was completed during the current year, leading to another \$53,949 of capital grant revenue during the current year. The project has now been completed and no additional funds will be received in subsequent years.
- Property taxes increased by \$68,357 as a result of a County road millage that trickled down to the Village in the amount of \$39,902 and a \$19,533 personal property tax reimbursement due from the state as of year-end.
- Legislative expenses showed a significant increase during the year as a result of approximately \$78,000 of professional fee expenses incurred by the Village during the year for various legal matters.
- Public work expenses increased significantly as a result of the Village planning and budgeting for over \$240,000 major and local street maintenance projects during the year.
- Overall expenses of the Village had an increase as a result of the pension reporting standard (Governmental Accounting Standards Board Statement No. 68) as well as by recognizing an increase in the Village's OPEB obligation. These long-term benefits led to \$98,861 (pension) and \$123,597 (increase in OPEB) of additional expenses recognized across the Village's functions during the most recent fiscal year.

Business-type Activities. Business-type activities decreased the Village's net position by \$73,071. The Village Council has taken a pro-active stance to improve the financial position of the water and sewer funds by implementing a multi-year plan of increasing utility rates incrementally so as to minimize the financial impact on its customers. This pro-active increase led to \$38,169 of additional revenues recognized during the year. Overall expenses increased from \$1,298,582 during 2015 to \$1,507,557 in 2016. This is a \$208,975 increase during the current year in total expenses for business-type activities.

Significant events impacting expenses of the business-type activities during the year include:

- Professional fees increased by approximately \$120,000 across the water and sewer funds as a result of various legal matters throughout the year.
- Wages allocated to the water and sewer funds, from governmental activities, for administration and management of the activities increased by roughly \$40,000 during the year to ensure that expenses allocated across the funds are consistent with actual time spent administering the activities.

Village of Kalkaska
Change in Net Position for Fiscal Years Ended February 29, 2016 and February 28, 2015

	Governmental Activities		Business-type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Revenue						
Program Revenues						
Charges for Services	\$ 103,047	\$ 117,248	\$ 1,437,015	\$ 1,398,846	\$ 1,540,062	\$ 1,516,094
Operating Grants & Contributions	234,089	214,853	-	-	234,089	214,853
Capital Grants & Contributions	234,948	854,299	-	-	234,948	854,299
Total Program Revenues	572,084	1,186,400	1,437,015	1,398,846	2,009,099	2,585,246
General Revenues						
Property Taxes	703,182	634,825	-	-	703,182	634,825
Intergovernmental	162,113	165,679	-	-	162,113	165,679
Other Revenue	68,026	-	-	-	68,026	-
Interest Income	873	233	2,005	5,296	2,878	5,529
Transfers In (Out)	4,534	-	(4,534)	-	-	-
Total General Revenues & Transfers	938,728	800,737	(2,529)	5,296	936,199	806,033
Total Revenues	1,510,812	1,987,137	1,434,486	1,404,142	2,945,298	3,391,279
Expenses						
Legislative	110,601	58,430	-	-	110,601	58,430
General Government	323,745	145,952	-	-	323,745	145,952
Public Safety	331,428	260,986	-	-	331,428	260,986
Public Works	497,697	208,123	-	-	497,697	208,123
Community & Economic Development	10,636	8,451	-	-	10,636	8,451
Recreation & Culture	35,163	22,012	-	-	35,163	22,012
Other Functions	168,624	378,554	-	-	168,624	378,554
Water & Sewer Operations	-	-	1,507,557	1,298,582	1,507,557	1,298,582
Total Expenses	1,477,894	1,082,508	1,507,557	1,298,582	2,985,451	2,381,090
Change in Net Position	32,918	904,629	(73,071)	105,560	(40,153)	1,010,189
Net Position at the Beginning of Period	1,914,021	1,009,392	4,728,451	4,622,891	6,642,472	5,632,283
Net Position at the End of Period	\$ 1,946,939	\$ 1,914,021	\$ 4,655,380	\$ 4,728,451	\$ 6,602,319	\$ 6,642,472

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Village itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village's Council.

At February 29, 2016, the Village's governmental funds reported combined fund balances of \$1,339,508, an increase of \$138,780 in comparison with the prior year. Approximately 22% of this amount (\$290,829) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *assigned*,

or restricted to indicate that it is 1) not in spendable form (\$24,579 for inventories and prepaid items), or 2) restricted for particular purposes (\$1,024,100 for major and local streets and public safety programs).

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$290,829. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 33 percent of total general fund expenditures and transfers out.

The fund balance of the Village's general fund increased by \$40,052 during the current fiscal year. The Village Council monitors the expenditures of the general fund closely to ensure that spending does not exceed the Village's available resources.

The major streets fund, a major fund, had a \$42,159 increase in fund balance during the current fiscal year which put the overall fund balance at \$594,497. This increase in fund balance is due to the originally budgeted street maintenance expenditures coming in under budget, creating an increase in fund balance.

The local streets fund, a major fund, had a \$49,744 increase in fund balance during the current fiscal year which put the overall fund balance at \$421,502. This increase in fund balance is also due to originally budgeted street maintenance expenditures coming in under budget, creating an increase in fund balance.

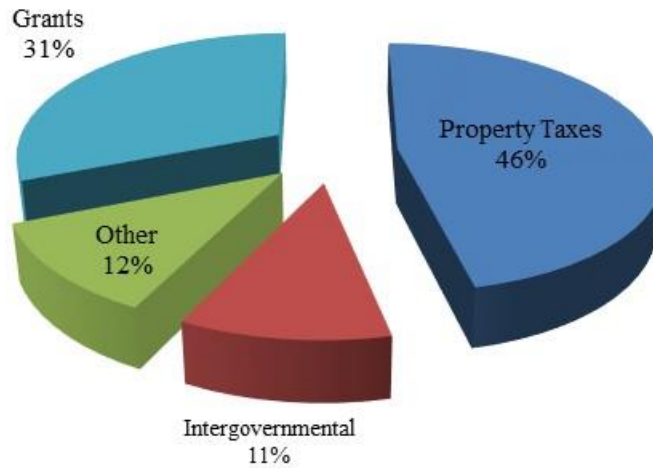
Proprietary Funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year was \$354,230 for the water fund and (\$49,002) for the sewer fund. The decrease in net position was \$32,766 for the water fund and \$40,305 for the sewer fund. A summary of the changes in the water and sewer funds net position can be found in the Business-type Activities paragraph found earlier in this report.

Governmental Activities

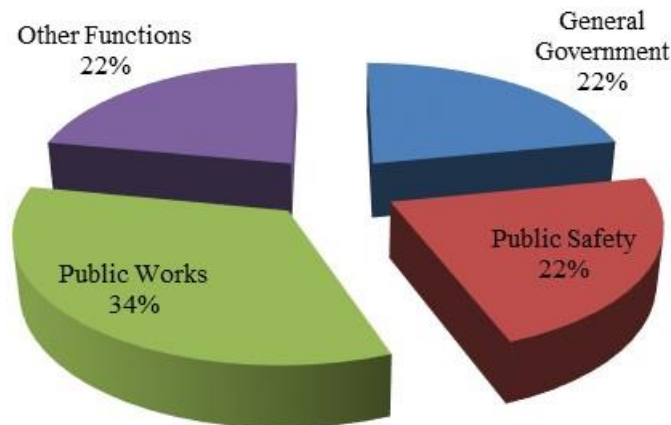
The following chart summarizes the revenue sources for the governmental activities of the Village for the most recent fiscal year end.

Governmental Activities Revenues



The following chart summarizes the expenses for the governmental activities of the Village for the most recent fiscal year end.

Governmental Activities Expenses



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was a need to adjust expenditures in the final budget to \$843,393 from the originally budgeted expenditures of \$763,486. This is a result of increased estimated legislative expenditures related to legal fees, from an original estimate of \$11,200 to a final estimate of \$76,200. Also, repairs to 109 4th Street were unexpected and not included in the original budget. However, the Council had to approve \$38,000 of budgeted costs as a result of needed repairs during the year. All other budget amendments during the year were relatively minor.

Final budget compared to actual results. During the current fiscal year the Village had the following budget variances between the final amended budget compared to actual results at the functional level:

<u>Expenditure</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative			
Village Council	\$ 94,305	\$ 110,601	\$ (16,296)
General Government			
Municipal Building	98,887	169,829	(70,942)
Other Functions			
Employee Insurance	46,028	70,881	(24,853)
Recreation & Culture			
Parks	20,129	21,264	(1,135)
Other Functions			
Property & Liability Insurance	26,500	29,886	(3,386)

Capital Assets and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 29, 2016, amounts to \$11,615,631 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, sidewalks, and water and sewer infrastructure.

More detailed information about the Villages' capital assets can be found in Note 4.

Long-term Debt

As described in Note 6 to the financial statements, the Village had \$5,438,613 in long-term debt at the end of the fiscal year. The Village is well under its legal debt limit as of year-end.

Economic Condition and Outlook

Management estimates that \$850,000 of revenues will be available for appropriation in the general fund in the upcoming year. The Village continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the

year to identify any necessary amendments. In 2017, the Village plans again to use current revenues to provide essential services and to maintain the Village's financial reserves at similar levels. Property tax revenues are expected to change minimally reflecting fairly stable property values.

Contacting the Village

This financial report is designed to provide a general overview of the Village's finances to its citizens, customers, investors, and creditors and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The Village of Kalkaska
200 Hyde Street
Kalkaska, MI 48851

Basic Financial Statements

Village of Kalkaska
Statement of Net Position
February 29, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 1,283,563	\$ 1,469,755	\$ 2,753,318	\$ 589,495
Accounts Receivable	5,738	115,450	121,188	--
Taxes Receivable	159,618	--	159,618	12,243
Due from Other Governments	73,830	--	73,830	19,533
Due from Component Unit	104,944	--	104,944	--
Inventories & Land Held for Resale	1,515	34,607	36,122	--
Prepaid Items	28,316	8,592	36,908	9
Total Current Assets	1,657,524	1,628,404	3,285,928	621,280
<i>Noncurrent Assets</i>				
Restricted Cash	--	868,744	868,744	--
Capital Assets not being Depreciated	246,371	192,841	439,212	86,560
Capital Assets being Depreciated, net	3,227,852	7,948,567	11,176,419	23,980
Total Assets	5,131,747	10,638,556	15,770,303	731,820
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Items	146,124	90,413	236,537	--
Total Deferred Outflows of Resources	146,124	90,413	236,537	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	108,426	38,099	146,525	7,996
Accrued Payroll Liabilities	22,023	15,607	37,630	--
Accrued Interest Payable	9,601	34,988	44,589	--
Current Portion of Long-term Debt	74,204	120,000	194,204	--
Due to Primary Government	--	--	--	104,944
Total Current Liabilities	214,254	208,694	422,948	112,940
<i>Noncurrent Liabilities</i>				
Compensated Absences	14,935	5,616	20,551	--
Long-term Debt, net	704,409	4,540,000	5,244,409	--
Other Postemployment Benefits Obligation	866,386	372,023	1,238,409	--
Net Pension Liability	1,530,948	947,256	2,478,204	--
Total Liabilities	3,330,932	6,073,589	9,404,521	112,940
NET POSITION				
Net Investment In Capital Assets	2,695,610	3,481,408	6,177,018	110,540
<i>Restricted for:</i>				
Major & Local Streets	1,015,999	--	1,015,999	--
Public Safety Programs	3,951	--	3,951	--
Debt Service	6,705	868,744	875,449	--
<i>Unrestricted</i>	(1,775,326)	305,228	(1,470,098)	508,340
Total Net Position	\$ 1,946,939	\$ 4,655,380	\$ 6,602,319	\$ 618,880

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Kalkaska
Statement of Activities
For the Year Ended February 29, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit - DDA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary Government								
Governmental Activities:								
Legislative	\$ 110,601	\$ --	\$ --	\$ --	\$ (110,601)	\$ --	\$ (110,601)	\$ --
General Government	323,745	84,098	--	--	(239,647)	--	(239,647)	--
Public Safety	331,428	5,000	598	--	(325,830)	--	(325,830)	--
Public Works	497,697	13,949	233,466	234,948	(15,334)	--	(15,334)	--
Recreation & Culture	35,163	--	25	--	(35,138)	--	(35,138)	--
Other	142,333	--	--	--	(142,333)	--	(142,333)	--
Community & Economic Development	10,636	--	--	--	(10,636)	--	(10,636)	--
Interest on Long-term Debt	26,291	--	--	--	(26,291)	--	(26,291)	--
Total Governmental Activities	1,477,894	103,047	234,089	234,948	(905,810)	--	(905,810)	--
Business-type Activities:								
Water	535,916	504,883	--	--	--	(31,033)	(31,033)	--
Sewer	971,641	932,132	--	--	--	(39,509)	(39,509)	--
Total Business-type Activities	1,507,557	1,437,015	--	--	--	(70,542)	(70,542)	--
Total Primary Government	\$ 2,985,451	\$ 1,540,062	\$ 234,089	\$ 234,948	\$ (905,810)	\$ (70,542)	\$ (976,352)	--
Component Unit								
DDA	\$ 330,659	\$ 1,138	\$ 5,800	\$ --	--	--	--	(323,721)
Total Component Unit	\$ 330,659	\$ 1,138	\$ 5,800	\$ --	--	--	--	(323,721)
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					703,182	--	703,182	122,258
Intergovernmental					162,113	--	162,113	--
Interest Income					873	2,005	2,878	175
Gain on Disposal of Capital Asset					68,026	--	68,026	--
Transfers					4,534	(4,534)	--	--
Total General Revenues and Transfers					938,728	(2,529)	936,199	122,433
Change in Net Position					32,918	(73,071)	(40,153)	(201,288)
<i>Net Position at Beginning of Period (Restated, Note 11)</i>					1,914,021	4,728,451	6,642,472	820,168
Net Position at End of Period					\$ 1,946,939	\$ 4,655,380	\$ 6,602,319	\$ 618,880

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Kalkaska
Balance Sheet
Governmental Funds
February 29, 2016**

	<u>Special Revenue</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>		
ASSETS					
Cash & Cash Equivalents	\$ 187,460	\$ 542,384	\$ 376,588	\$ 3,951	\$ 1,110,383
Accounts Receivable	5,738	--	--	--	5,738
Taxes Receivable	101,397	30,673	27,548	--	159,618
Due from Other Governments	25,105	24,886	23,839	--	73,830
Due from Component Unit	83,013	3,383	11,843	6,705	104,944
Inventories & Land Held for Resale	--	505	1,010	--	1,515
Prepaid Items	22,024	296	744	--	23,064
Capital Assets not being Depreciated	246,371	--	--	--	246,371
Capital Assets being Depreciated, net	(246,371)	--	--	--	(246,371)
Total Assets	\$ 424,737	\$ 602,127	\$ 441,572	\$ 10,656	\$ 1,479,092
LIABILITIES					
Accounts Payable	\$ 95,819	\$ 5,331	\$ 3,212	\$ --	\$ 104,362
Accrued Payroll Liabilities	16,065	2,299	2,275	--	20,639
Total Liabilities	111,884	7,630	5,487	--	125,001
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenues	--	--	14,583	--	14,583
Total Liabilities and Deferred Inflows of Resources	111,884	7,630	20,070	--	139,584
FUND BALANCE					
Nonspendable	22,024	801	1,754	--	24,579
Restricted	--	593,696	419,748	10,656	1,024,100
Unassigned	290,829	--	--	--	290,829
Total Fund Balance	312,853	594,497	421,502	10,656	1,339,508
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 424,737	\$ 602,127	\$ 441,572	\$ 10,656	\$ 1,479,092

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Kalkaska
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
February 29, 2016

Total Fund Balance - Governmental Funds	\$	1,339,508
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements		335,479
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.		3,029,723
Certain liabilities, such as long-term debt, accrued interest, compensated absences, and other postemployment benefit obligations, are not due and payable in the current period, and therefore are not reported in the funds.		(1,387,530)
Unavailable revenues are not available to pay current period expenditures and, therefore, are deferred inflows of resources in the funds.		14,583
Deferred outflows of resources related to defined benefit pension plans are applicable to future periods and are not reported in the governmental funds.		146,124
The net pension liability of the defined benefit pension plan is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(1,530,948)
Total Net Position - Governmental Funds	\$	<u>1,946,939</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Kalkaska
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended February 29, 2016

	<u>Special Revenue</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>		
Revenues					
Property Taxes	\$ 563,005	\$ 48,884	\$ 91,293	\$ --	\$ 703,182
Licenses & Permits	4,480	--	--	--	4,480
Intergovernmental	162,368	289,768	74,610	48,104	574,850
Charges for Services	20,294	--	--	--	20,294
Fines & Forfeitures	7,251	--	--	--	7,251
Rentals	31,614	--	--	--	31,614
Refunds & Reimbursements	61,114	--	--	--	61,114
Other Revenue	4,810	29	56	--	4,895
Interest Income	331	215	163	2	711
Total Revenues	<u>855,267</u>	<u>338,896</u>	<u>166,122</u>	<u>48,106</u>	<u>1,408,391</u>
Expenditures					
Legislative	110,601	--	--	--	110,601
General Government	265,115	--	--	--	265,115
Public Safety	273,408	--	--	480	273,888
Public Works	40,509	157,822	114,096	--	312,427
Recreation & Culture	33,793	--	--	--	33,793
Community & Economic Development	10,636	--	--	--	10,636
Other	142,333	--	--	--	142,333
Capital Outlay	6,846	152,779	2,282	--	161,907
Debt Service - Principal	--	--	--	30,000	30,000
Debt Service - Interest	--	--	--	15,335	15,335
Total Expenditures	<u>883,241</u>	<u>310,601</u>	<u>116,378</u>	<u>45,815</u>	<u>1,356,035</u>
Excess of Revenues Over (Under) Expenditures	<u>(27,974)</u>	<u>28,295</u>	<u>49,744</u>	<u>2,291</u>	<u>52,356</u>
Other Financing Sources (Uses)					
Insurance Recovery	--	13,864	--	--	13,864
Sale of Capital Asset	68,026	--	--	--	68,026
Transfers In	--	--	--	4,534	4,534
Net Other Financing Sources (Uses)	<u>68,026</u>	<u>13,864</u>	<u>--</u>	<u>4,534</u>	<u>86,424</u>
Net Change in Fund Balance	40,052	42,159	49,744	6,825	138,780
Fund Balance at Beginning of Period	<u>272,801</u>	<u>552,338</u>	<u>371,758</u>	<u>3,831</u>	<u>1,200,728</u>
Fund Balance at End of Period	\$ 312,853	\$ 594,497	\$ 421,502	\$ 10,656	\$ 1,339,508

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Kalkaska
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended February 29, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	138,780
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements		(66,128)
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. This is the amount that capital outlay exceeds depreciation expense during the current year.		71,537
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. This represents the current year change in the accrual of compensated absences, accrued interest, and the net other postemployment benefits liability.		(54,783)
Some receivables are collected beyond 60 days after the end of the reporting period and are not recognized as revenue in the funds until the period that they are collected. This represents the current year change in unavailable revenues.		4,585
Expenses related to the change in the net pension liability and the pension related deferred amounts do not require current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(61,073)
Changes in Net Position - Governmental Funds	\$	<u>32,918</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Kalkaska
Statement of Net Position
Proprietary Funds
February 29, 2016

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise</u>	<u>Internal Service</u>
			<u>Funds</u>	<u>Funds</u>
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 959,332	\$ 510,423	\$ 1,469,755	\$ 173,180
Accounts Receivable	33,719	81,731	115,450	--
Inventories & Land Held for Resale	10,141	24,466	34,607	--
Prepaid Items	4,018	4,574	8,592	5,252
Total Current Assets	<u>1,007,210</u>	<u>621,194</u>	<u>1,628,404</u>	<u>178,432</u>
<i>Noncurrent Assets</i>				
Restricted Cash	--	868,744	868,744	--
Capital Assets not being Depreciated	65,689	127,152	192,841	--
Capital Assets being Depreciated, net	2,346,379	5,602,188	7,948,567	444,500
Total Assets	<u>3,419,278</u>	<u>7,219,278</u>	<u>10,638,556</u>	<u>622,932</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Items	40,440	49,973	90,413	--
Total Deferred Outflows of Resources	<u>40,440</u>	<u>49,973</u>	<u>90,413</u>	<u>--</u>
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	20,195	17,904	38,099	4,064
Accrued Payroll Liabilities	6,044	9,563	15,607	1,384
Accrued Interest Payable	--	34,988	34,988	3,392
Current Portion of Long-term Debt	--	120,000	120,000	44,204
Total Current Liabilities	<u>26,239</u>	<u>182,455</u>	<u>208,694</u>	<u>53,044</u>
<i>Noncurrent Liabilities</i>				
Compensated Absences	1,744	3,872	5,616	--
Long-term Debt, net	--	4,540,000	4,540,000	234,409
Other Postemployment Benefits Obligation	241,749	130,274	372,023	--
Net Pension Liability	423,688	523,568	947,256	--
Total Liabilities	<u>693,420</u>	<u>5,380,169</u>	<u>6,073,589</u>	<u>287,453</u>
NET POSITION				
Net Investment In Capital Assets	2,412,068	1,069,340	3,481,408	165,887
<i>Restricted for:</i>				
Debt Service	--	868,744	868,744	--
<i>Unrestricted</i>	354,230	(49,002)	305,228	169,592
Total Net Position	<u>\$ 2,766,298</u>	<u>\$ 1,889,082</u>	<u>\$ 4,655,380</u>	<u>\$ 335,479</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Kalkaska
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended February 29, 2016

	Business-type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total Enterprise	Activities
			Funds	Internal Service
				Funds
Operating Revenues				
Charges for Services	\$ 483,508	\$ 932,132	\$ 1,415,640	\$ 71,874
Other Revenue	21,375	--	21,375	--
Total Operating Revenues	504,883	932,132	1,437,015	71,874
Operating Expenses				
Personnel Services	232,827	281,143	513,970	80,655
Contractual Services	116,316	113,142	229,458	1,869
Supplies	23,825	9,099	32,924	19,341
Utilities	38,786	67,997	106,783	--
Repair & Maintenance	11,747	88,622	100,369	22,004
Equipment Rental	10,407	5,755	16,162	--
Depreciation	100,578	190,800	291,378	34,460
Total Operating Expenses	534,486	756,558	1,291,044	158,329
Operating Income (Loss)	(29,603)	175,574	145,971	(86,455)
Non-Operating Revenues (Expenses)				
Capital Grant	--	--	--	11,250
Interest Income	534	1,471	2,005	162
Interest Expense	(1,430)	(215,083)	(216,513)	(10,085)
Net Non-Operating Revenues (Expenses)	(896)	(213,612)	(214,508)	1,327
Income Before Contributions and Transfers	(30,499)	(38,038)	(68,537)	(85,128)
Gain on Disposal of Capital Asset	--	--	--	19,000
Transfers Out	(2,267)	(2,267)	(4,534)	--
Change In Net Position	(32,766)	(40,305)	(73,071)	(66,128)
<i>Net Position at Beginning of Period (Note 11)</i>	2,799,064	1,929,387	4,728,451	401,607
Net Position at End of Period	\$ 2,766,298	\$ 1,889,082	\$ 4,655,380	\$ 335,479

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Kalkaska
Statement of Cash Flows
Proprietary Funds
For the Year Ended February 29, 2016**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>	<u>Activities Internal Service Fund</u>
Cash Flows from Operating Activities				
Cash Received from Charges for Service	\$ 512,979	\$ 951,260	\$ 1,464,239	\$ -
Cash Received from Interfund Services Provided	-	-	-	88,679
Cash Payments to Employees for Services and Fringe Benefits	(189,959)	(242,729)	(432,688)	(79,396)
Cash Payments to Suppliers for Good and Services	(186,249)	(273,732)	(459,981)	(36,959)
Total Cash Flows from Operating Activities	<u>136,771</u>	<u>434,799</u>	<u>571,570</u>	<u>(27,676)</u>
Cash Flows from Non-capital Financing Activities				
Collection of Interfund Receivables	-	89,441	89,441	-
Transfers Out	(2,267)	(2,267)	(4,534)	-
Total Cash Flows from Non-capital Financing Activities	<u>(2,267)</u>	<u>87,174</u>	<u>84,907</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities				
Purchases of Capital Assets	(70,253)	(332,208)	(402,461)	(181,032)
Capital Grant Received	-	-	-	11,250
Proceeds from Installment Purchase Agreement	-	-	-	173,000
Principal Payments on Long-term Debt	(28,600)	(131,400)	(160,000)	(36,000)
Interest Payments on Long-term Debt	(1,716)	(216,159)	(217,875)	(6,693)
Total Cash Flows from Capital and Related Financing Activities	<u>(100,569)</u>	<u>(679,767)</u>	<u>(780,336)</u>	<u>(39,475)</u>
Cash Flows from Investing Activities				
Interest Income	534	1,471	2,005	162
Total Cash Flows from Investing Activities	<u>534</u>	<u>1,471</u>	<u>2,005</u>	<u>162</u>
Net Increase (Decrease) in Cash and Cash Equivalents	34,469	(156,323)	(121,854)	(66,989)
<i>Cash and Cash Equivalents - Beginning of Year</i>	924,863	1,535,490	2,460,353	240,169
Cash and Cash Equivalents - End of Year	<u>\$ 959,332</u>	<u>\$ 1,379,167</u>	<u>\$ 2,338,499</u>	<u>\$ 173,180</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Kalkaska
Statement of Cash Flows
Proprietary Funds
For the Year Ended February 29, 2016

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise</u>	Activities
			Funds	Internal Service
				Fund
Statement of Net Position Classification of Cash and Cash Equivalents				
Cash & Cash Equivalents	\$ 959,332	\$ 510,423	\$ 1,469,755	\$ 173,180
Restricted Cash	-	868,744	868,744	-
Cash & Cash Equivalents	\$ 959,332	\$ 1,379,167	\$ 2,338,499	\$ 173,180
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (29,603)	\$ 175,574	\$ 145,971	\$ (86,455)
Adjustments to Reconcile Operating Income to Net Cash				
Provided (Used) by Operating Activities				
Depreciation Expense	100,578	190,800	291,378	34,460
Changes in Assets & Liabilities				
Receivables	8,096	19,128	27,224	16,805
Prepaid Items	(59)	(2,263)	(2,322)	2,383
Inventory	(805)	258	(547)	-
Accounts Payable	15,696	12,888	28,584	3,872
Accrued Payroll and Related Liabilities	1,838	4,526	6,364	1,259
Net Pension Liability and Related Deferrals	16,903	20,886	37,789	-
Net Other Postemployment Benefits	24,127	13,002	37,129	-
Net Cash Provided by Operating Activities	\$ 136,771	\$ 434,799	\$ 571,570	\$ (27,676)

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Kalkaska
Statement of Fiduciary Net Position
Fiduciary Funds
February 29, 2016

	<u>Agency</u>
	<u>Tax Fund</u>
ASSETS	
Cash & Cash Equivalents	\$ 13,713
<i>Total Assets</i>	<u>13,713</u>
LIABILITIES	
Due to Other Governments	<u>13,713</u>
<i>Total Liabilities</i>	<u>13,713</u>
NET POSITION	
Held in Trust	<u>\$ --</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Village of Kalkaska

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The Village of Kalkaska (the “Village” or “government”) is a municipal corporation governed by an elected Council (7 members) and provides services to its more than 2,000 residents in many areas including law enforcement, street development and maintenance, parks, and sewer and water services. The accounting policies of the Village conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. The component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

Discretely Presented Component Unit

Downtown Development Authority

The members of the governing board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete financial statements for the component unit are not separately prepared.

Brownfield Redevelopment Authority

The members of the governing board of the Brownfield Redevelopment Authority are appointed by the Village Council. The budgets and expenditures of the Brownfield Redevelopment Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Brownfield Redevelopment Authority. Complete financial statements for the component unit are not separately prepared.

Government-wide and Fund Financial Statements

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

Village of Kalkaska

Notes to the Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. The fiduciary fund financial statements use the economic resources measurement focus, although the agency funds do not have a measurement focus. 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. After March 1st of the subsequent year, the delinquent real property taxes are paid to the Village by the County, which is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Village of Kalkaska

Notes to the Financial Statements

The Village of Kalkaska reports the following major governmental funds:

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

The **major streets fund** accounts for the revenue received from the State of Michigan under Act 51 which is specifically earmarked for construction and maintenance of roads designated as major streets in Village.

The **local streets fund** accounts for the revenue received from the State of Michigan under Act 51 which is specifically earmarked for construction and maintenance of roads designated as local streets in Village.

The Village of Kalkaska reports the following major proprietary funds:

The **water fund** accounts for the cost of providing water services to Village residents. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

The **sewer fund** accounts for the cost of collecting and treating wastewater. Revenues are primarily from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the government 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 specific purposes other than debt service or capital projects.

Internal service funds account for the financing of goods or services provided by the Village to other departments or funds on a cost reimbursement basis.

Agency funds are used to account for assets held on behalf of outside parties, including 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 other charges between the Village's water and sewer function 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.

Village of Kalkaska

Notes to the Financial Statements

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

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Village'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. Certificates of deposit are carried at cost plus accrued interest, since the original maturity dates are less than one year.

Restricted Assets

Assets which are restricted for specified uses by bond debt requirements are classified as restricted assets. Liabilities payable for such restricted assets are separately classified.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. No amounts outstanding at February 29, 2016 were identified by as being uncollectible.

Inventories, Land Held for Resale, and Prepaids

Inventories consist of meters and parts for the water and sewer enterprise funds and are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Land held for resale consists of parcels in the Kalkaska Industrial Park, purchased through a promissory note with the Kalkaska County Industrial Development Corporation.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type

Village of Kalkaska

Notes to the Financial Statements

activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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 of capital assets and improvement are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital, assets (including infrastructure) of the primary government is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Life (Years)</u>
Buildings	30 - 50
Equipment & Vehicles	5 - 30
Land Improvements	30
Water & Sewer System	10 - 50
Infrastructure	20 - 50

The Village 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.

Compensated Absences

Under terms of Village policies, eligible employees are granted vacation, sick, and compensatory time in varying amounts based on length of service. Sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have maturity, 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, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. For new bond issuances of governmental funds after the implementation of GASB

Village of Kalkaska

Notes to the Financial Statements

Statement No. 34 and all proprietary fund bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period that the bond was issued.

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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. 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. The government itself can

Village of Kalkaska

Notes to the Financial Statements

establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Village Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Village Council has authorized the Village Manager to assign fund balance. The Village Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance is the residual classification for the Village's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Village Council.

Property Tax Revenue Recognition

The Village property tax is levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Collections are made July 1 through September 14. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value.

Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the Village.

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.

Village of Kalkaska

Notes to the Financial Statements

Budgetary and Budgetary Accounting

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.

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

1. The Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of a resolution.
4. The legal level of budgetary control is at the activity level.
5. The Village Manager is authorized to transfer budget amounts between line items within the department. Supplemental appropriations that amend total expenditures for any department require Village Council resolution.
6. Budget appropriations lapse at year-end.
7. Adoption and amendments of all budgets used by the Village are governed by Public Act 621, which was followed for the year ended February 29, 2016. Expenditures may not exceed appropriations.

Note 2 – 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. Budgetary control is exercised at the activity level in the general fund and the function level in other funds.

Village of Kalkaska

Notes to the Financial Statements

During the year ended February 29, 2016, the Village had the following expenditures in budgetary funds which were in excess of the amounts budgeted:

<u>Expenditure</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative			
Village Council	\$ 94,305	\$ 110,601	\$ (16,296)
General Government			
Municipal Building	98,887	169,829	(70,942)
Other Functions			
Employee Insurance	46,028	70,881	(24,853)
Recreation & Culture			
Parks	20,129	21,264	(1,135)
Other Functions			
Property & Liability Insurance	26,500	29,886	(3,386)
Local Streets Fund			
Sidewalks	6,500	8,666	(2,166)
Major Streets Fund			
Traffic Service	27,977	31,250	(3,273)

Note 3 – Cash and Investments

The captions on the government-wide and fund statements relating to cash and investments are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Fund</u>
Statement of Net Position					
Cash & Cash Equivalents	\$ 1,283,563	\$ 1,469,755	\$ 2,753,318	\$ 589,495	\$ 13,713
Restricted Cash	-	868,744	868,744	-	-
Total Cash & Cash Equivalents	<u>\$ 1,283,563</u>	<u>\$ 2,338,499</u>	<u>\$ 3,622,062</u>	<u>\$ 589,495</u>	<u>\$ 13,713</u>

These deposits are held in one (1) financial institution located in Michigan. State policy limits the Treasurer's investing options as described in detail below. All accounts are in the name of the Village and a specific fund or common account. Deposits and investments are recorded in Village records at fair value. Interest is recorded when earned.

Village of Kalkaska

Notes to the Financial Statements

Deposits & Investments	
Checking & Savings Accounts	\$ 4,224,670
Certificates of Deposit	-
Cash on Hand	600
Total Cash & Cash Equivalents	<u>\$ 4,225,270</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits might not be returned. State law does not require, and the Village does not have, a policy for deposit custodial credit risk. As of year-end, \$3,808,979 of the Villages bank balance of \$4,308,979 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Village believes it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Statutory Authority

State statutes authorize the Village to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States of America, or an agency or instrumentality of the United States of America.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. 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.
- d. Bankers' acceptances of United States banks.
- e. 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.
- f. 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.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Village of Kalkaska

Notes to the Financial Statements

Note 4 - Capital Assets

Capital asset activities for governmental activities for the year ended February 29, 2016 were as follows:

Governmental Activities	Beginning of Year	Additions	Disposals	End of Year
Capital Assets not being Depreciated				
Land	\$ 246,371	\$ -	\$ -	\$ 246,371
Construction in Progress	1,267,309	-	1,267,309	-
Total Capital Assets not being Depreciated	<u>1,513,680</u>	<u>-</u>	<u>1,267,309</u>	<u>246,371</u>
Capital Assets being Depreciated				
Buildings	674,099	-	-	674,099
Land Improvements	991,358	-	-	991,358
Equipment & Vehicles	283,665	11,410	-	295,075
Infrastructure	746,890	1,417,806	-	2,164,696
Total Capital Assets being Depreciated	<u>2,696,012</u>	<u>1,429,216</u>	<u>-</u>	<u>4,125,228</u>
Less Accumulated Depreciation				
Buildings	196,524	13,654	-	210,178
Land Improvements	639,130	33,045	-	672,175
Equipment & Vehicles	273,868	5,366	-	279,234
Infrastructure	141,985	38,304	-	180,289
Total Accumulated Depreciation	<u>1,251,507</u>	<u>90,369</u>	<u>-</u>	<u>1,341,876</u>
Net Capital Assets being Depreciated	<u>1,444,505</u>	<u>1,519,585</u>	<u>-</u>	<u>2,783,352</u>
Net Capital Assets	<u>2,958,185</u>	<u>1,519,585</u>	<u>1,267,309</u>	<u>3,029,723</u>
Internal Service Fund				
Capital Assets being Depreciated:				
Equipment & Vehicles	667,624	200,032	-	867,656
Less Accumulated Depreciation:				
Equipment & Vehicles	388,696	34,460	-	423,156
Net Capital Assets, Internal Service	<u>278,928</u>	<u>165,572</u>	<u>-</u>	<u>444,500</u>
Net Capital Assets, Governmental	<u>\$ 3,237,113</u>	<u>\$ 1,685,157</u>	<u>\$ 1,267,309</u>	<u>\$ 3,474,223</u>

Village of Kalkaska

Notes to the Financial Statements

Capital asset activities for business-type activities for the year ended February 29, 2016 were as follows:

Business-type Activities	Beginning of Year	Additions	Disposals	End of Year
Capital Assets not being Depreciated				
Land	\$ 87,934	\$ -	\$ -	\$ 87,934
Construction in Progress	-	104,907	-	104,907
Total Capital Assets not being Depreciated	<u>87,934</u>	<u>104,907</u>	<u>-</u>	<u>192,841</u>
Capital Assets being Depreciated				
Buildings	38,943	-	-	38,943
Land Improvements	539,391	-	-	539,391
Equipment & Vehicles	224,547	43,551	-	268,098
Water & Sewer System	12,459,726	254,003	-	12,713,729
Total Capital Assets being Depreciated	<u>13,262,607</u>	<u>297,554</u>	<u>-</u>	<u>13,560,161</u>
Less Accumulated Depreciation				
Buildings	25,407	865	-	26,272
Land Improvements	197,777	17,980	-	215,757
Equipment & Vehicles	184,308	13,668	-	197,976
Water & Sewer System	4,912,724	258,865	-	5,171,589
Total Accumulated Depreciation	<u>5,320,216</u>	<u>291,378</u>	<u>-</u>	<u>5,611,594</u>
Net Capital Assets being Depreciated	<u>7,942,391</u>	<u>6,176</u>	<u>-</u>	<u>7,948,567</u>
Net Capital Assets, Business-type	<u>\$ 8,030,325</u>	<u>\$ 111,083</u>	<u>\$ -</u>	<u>\$ 8,141,408</u>

Village of Kalkaska

Notes to the Financial Statements

Capital asset activities for the Downtown Development Authority (discretely presented component unit) activities for the year ended February 29, 2016 were as follows:

Component Unit - DDA	Beginning of Year	Additions	Disposals	End of Year
Capital Assets not being Depreciated				
Land	\$ 86,560	\$ -	\$ -	\$ 86,560
Capital assets being depreciated				
Land Improvements	-	19,294	-	19,294
Equipment & Vehicles	-	6,132	-	6,132
Total Capital Assets being Depreciated	-	25,426	-	25,426
Less Accumulated Depreciation				
Land Improvements	-	643	-	643
Equipment & Vehicles	-	803	-	803
Total Accumulated Depreciation	-	1,446	-	1,446
Net Capital Assets, Component Unit	<u>\$ 86,560</u>	<u>\$ 23,980</u>	<u>\$ -</u>	<u>\$ 110,540</u>

Depreciation expense was charged to functions of the Village as follows:

Governmental Activities	
General Government	\$ 14,574
Public Safety	3,000
Public Works	72,049
Recreation & Culture	748
Depreciation Charged to the Motor Pool Internal Service Fund	<u>34,458</u>
Total Governmental Activities	<u>\$ 124,829</u>
Business-type Activities	
Water Fund	\$ 100,578
Sewer Fund	<u>190,800</u>
Total Business-type Activities	<u>\$ 291,378</u>
Discretely Presented Component Unit	
Community & Economic Development	<u>\$ 1,446</u>

Village of Kalkaska

Notes to the Financial Statements

Note 5 - Interfund Transactions

The composition of interfund balances as of February 29, 2016 was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	DDA	\$ 83,013
Local Streets	DDA	11,843
Major Streets	DDA	3,383
Debt Service	DDA	6,705

All amounts due from other funds represent advances to other funds to finance operations or capital outlays.

There composition of interfund transfers for the year ended February 29, 2016 was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	Sewer	\$ 2,267
Debt Service	Water	2,667

The water and sewer funds transferred out their proportionate share of annual debt service payments made from the debt service fund.

Village of Kalkaska

Notes to the Financial Statements

Note 6 - Long-term Debt

Long-term debt activity for the year ended February 29, 2016 was as follows:

	Beginning of Year	Additions	Reductions	End of Year	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 17,491	\$ -	\$ 2,556	\$ 14,935	\$ -
OPEB Obligation	779,918	86,468	-	866,386	-
2014 Capital Improvement Bonds (Limited Tax General Obligation), payable in semi-annual installments of \$30,000 - \$45,000 plus interest at 3.98%, through April 1, 2029.	530,000	-	30,000	500,000	30,000
2014 Installment Purchase Agreement used to purchase a new Freightliner, payable in annual installments of \$36,190 to \$38,971 plus interest at 2.80%, through November 2018.	140,817	-	35,204	105,613	35,204
2016 Installment Purchase Agreement used to purchase a new Caterpillar front-end loader, payable in annual installments payments of \$9,000 to \$14,000 plus interest at 3.5%, through July 2031.	-	173,000	-	173,000	9,000
Total Governmental Activities	<u>1,468,226</u>	<u>259,468</u>	<u>67,760</u>	<u>1,659,934</u>	<u>74,204</u>
Business-type Activities:					
1996 Water Supply and Disposal System Revenue Bonds, payable in semi-annual installments of \$50,000 - \$65,000 plus interest at 5.35 - 7.20%, through January 2016.	65,000	-	65,000	-	-
2002 Sewage System Bonds, payable in semi-annual installments of \$30,000 - \$145,000, plus interest at 4.5%, through January 1, 2042.	4,755,000	-	95,000	4,660,000	120,000
OPEB Obligation	334,894	37,129	-	372,023	-
Compensated Absences	4,621	995	-	5,616	-
Total Business-type Activities	<u>5,159,515</u>	<u>38,124</u>	<u>160,000</u>	<u>5,037,639</u>	<u>120,000</u>
Total Primary Government Long-term Debt	<u>\$ 6,627,741</u>	<u>\$ 297,592</u>	<u>\$ 227,760</u>	<u>\$ 6,697,573</u>	<u>\$ 194,204</u>

Village of Kalkaska

Notes to the Financial Statements

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity on the total long-term debt obligations outstanding at February 29, 2016 are as follows:

Year Ending February 28,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 74,204	\$ 23,597	\$ 97,801
2018	79,204	21,402	100,607
2019	80,205	19,024	99,229
2020	45,000	16,645	61,645
2021	45,000	15,252	60,252
2022-2026	257,000	53,245	310,245
2027-2029	198,000	12,762	210,762
Totals:	\$ 778,613	\$ 161,927	\$ 940,541

Year Ending February 28,	Business-type Activities		
	Principal	Interest	Total
2017	\$ 120,000	\$ 209,926	\$ 329,926
2018	125,000	204,526	329,526
2019	130,000	198,900	328,900
2020	135,000	193,050	328,050
2021	140,000	186,976	326,976
2022-2026	610,000	682,652	1,292,652
2027-2031	875,000	689,628	1,564,628
2032-2036	1,000,000	481,502	1,481,502
2037-2041	1,305,000	268,426	1,573,426
2042	220,000	10,126	230,126
Totals:	\$ 4,660,000	\$ 3,125,712	\$ 7,785,712

The compensated absences, capital improvement bonds, and OPEB obligation attributable to the governmental activities will generally be liquidated by the general fund, major streets fund, or local streets fund. The installment purchase agreement attributable to the governmental activities will generally be liquidated from the internal service funds.

Note 7 - Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees (workers' compensation); and natural disasters. During the year ended February 29, 2016, the Village carried commercial insurance to cover all risks of loss. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

Village of Kalkaska

Notes to the Financial Statements

Note 8 - Defined Benefit Pension Plan

Plan Description

The Village’s defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Village 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, 447 N. Canal Road, Lansing, Michigan 48917-9755 or by calling (800) 767-6377.

Retirement benefits for employees are calculated as follows:

Division	Benefit Multiplier	Benefit Maximum	Final Average Compensation (Years)	Normal Retirement Age	Unreduced Benefit (Age/Years of Service)	Reduced Benefit (Age/Years of Service)	Vesting (Years)
General - Closed	2.50%	80%	3	60	55/20	50/25 or 55/15	10
Police / Fire - Closed	2.50%	80%	3	60	55/20	55/15	6
DPW - Closed	2.50%	80%	3	60	55/20	50/25 or 55/15	10
DPW - Hybrid	1.50%	N/A	3	60	N/A	N/A	6
Police / Fire - Hybrid	1.50%	N/A	3	60	N/A	N/A	6
General - Hybrid	1.50%	N/A	3	60	N/A	N/A	6

Employees Covered by Benefit Terms

At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	14
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>11</u>
Total employees covered by MERS	<u><u>30</u></u>

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount

Village of Kalkaska

Notes to the Financial Statements

to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2015, the Village had the following contribution rates:

Division	Employee Contributions	Employer Contributions
DPW - Hybrid	0.00%	8.02%
Police / Fire - Hybrid	0.00%	5.75%
General - Hybrid	0.00%	7.50%

Net Pension Liability

The net pension liability reported at February 29, 2016 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of December 31, 2014.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	General Government		
	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at March 1, 2015	\$ 4,910,999	\$ 2,738,874	\$ 2,172,125
Service cost	40,600	-	40,600
Interest	393,273	-	393,273
Contributions - employer	-	175,915	(175,915)
Net investment income	-	(39,610)	39,610
Benefit payments, including refunds	(328,709)	(328,709)	-
Administrative expenses	-	(5,867)	5,867
Other expenses	2,644	-	2,644
Net changes	107,808	(198,271)	306,079
Balance at February 29, 2016	\$ 5,018,807	\$ 2,540,603	\$ 2,478,204

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

For the year ended February 29, 2016 the Village recognized pension expense of \$272,132.

Village of Kalkaska

Notes to the Financial Statements

At February 29, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 207,218	\$ -
Employer contributions to the plan subsequent to the measurement date	29,319	-
Total	<u>\$ 236,537</u>	<u>\$ -</u>

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

Years Ended	Amount
February 28	
2017	\$ 81,123
2018	51,804
2019	51,804
2020	51,806

Actuarial Assumptions

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

Inflation	3 - 4%	
Salary increases	4.5%	In the long-term, 1 percent, 2 percent, and 3 percent for calendar years 2014, 2015, and 2016, respectively, including inflation
Investment rate of return	8.25%	Gross of pension plan investment expense, including inflation

Mortality rates were based on the 1994 Group Annuity Mortality Table of a 50 percent male and 50 percent female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

Village of Kalkaska

Notes to the Financial Statements

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study in 2008.

Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Expected Money- Weighted Rate of Return</u>
Global equity	58%	5.02%	2.89%
Global fixed income	20%	2.18%	0.44%
Real assets	12%	4.23%	0.51%
Diversifying strategies	10%	6.56%	0.66%
	<u>100%</u>		

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

The following presents the net pension liability of the Village, calculated using the discount rate of 8.25 percent, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent) or one percentage point higher (9.25 percent) than the current rate.

Village of Kalkaska

Notes to the Financial Statements

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Net pension liability of the Village	\$ 3,000,018	\$ 2,478,204	\$ 2,034,965

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at www.mersofmich.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 9 - Other Postemployment Benefits

As discussed in Note 10, the Village Council issued a resolution to terminate retiree health care effective August 19, 2014. The retirees subsequently filed a class action complaint to re-establish retiree healthcare benefits. The outcome of this matter is not determinable as of the date of this report. As such, the net postemployment benefit obligation under GASB Statement No. 45 continues to be reflected on the statement of net position as of February 29, 2016.

Plan Description. The Village of Kalkaska administers a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 8, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance-funded on a discretionary basis. In accordance with Village policy, certain individuals and their beneficiaries receive medical, dental, prescription, and eyeglass coverage for varying periods of timing, depending on bargaining unit and years of service. As of February 29, 2012, the date of the last plan valuation, the Plan covered 14 members (6 active plan members and 8 retirees receiving benefits).

Funding policy. The contribution requirements of Plan members and the Village are established and may be amended by the Council. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by the Village Council. For the year ended February 29, 2016, the Village contributed \$43,303 to the Plan. In accordance with Village policy, retirees were not required to make any contributions to the Plan.

Annual OPEB Cost and Net OPEB Obligation. The Village's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Village has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans

Village of Kalkaska

Notes to the Financial Statements

with fewer than one hundred total plan members. 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 Village's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Village's net OPEB obligation:

	2/29/2016
Annual Required Contribution	\$ 181,862
Interest on Net OPEB Obligation	13,935
Adjustment to Annual Required Contribution	(28,897)
Annual OPEB Cost (Expense)	166,900
Less: Contributions Made	(43,303)
<i>Increase in OPEB Obligation</i>	123,597
<i>Net OPEB Obligation - Beginning of Year</i>	1,114,812
<i>Net OPEB Obligation - End of Year</i>	\$ 1,238,409

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 and the previous years were as follows:

	Fiscal Year Ending		
	2/28/2014	2/28/2015	2/29/2016
Annual OPEB Cost (Expense)	\$ 200,009	\$ 258,783	\$ 166,900
Percentage of OPEB Cost Contributed	89%	36%	26%
Net OPEB Obligation	\$ 949,954	\$ 1,114,812	\$ 1,238,409

Funded Status and Funding Progress. As of February 29, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,630,933, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$208,428 and the ratio of the UAAL to the covered payroll was 2,702 percent.

The projection of future benefit payments for an ongoing plan involves 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, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial

Village of Kalkaska

Notes to the Financial Statements

statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and 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 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 following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2006 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections by the Village's management. A rate of 5 percent to 8 percent was used.

Health insurance premiums - 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 3.3 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Village's short-term investment portfolio, a discount rate of 1.25 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level

Village of Kalkaska

Notes to the Financial Statements

percentage of projected payrolls on an open basis. The remaining amortization period at February 29, 2016, was 28 years.

Note 10 - Subsequent Events

The Village Council issued a resolution to terminate retiree health care effective August 19, 2014. The retirees filed a class action complaint for damages and request for injunctive relief lawsuit. The proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate resolution of this matter. See Note 9 for more information.

Note 11 - Prior Period Adjustment

During the current year, the Village adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the government-wide statements now include a liability for the Village's unfunded legacy costs. Some of the changes in this net pension liability will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to the pension note for further details. This change does not impact the general fund or any other governmental fund.

The financial statements for the year ended February 28, 2015 have been restated in order to adopt GASB Statement No. 68. The effect of this new accounting standard was a decrease in net position to record the net pension liability at February 28, 2015.

As a result of implementing these changes, the beginning net position of governmental activities, business-type activities, and the water and sewer funds have been restated as indicated:

	Governmental Activities	Business-type Activities	
		Water Fund	Sewer Fund
Net position - February 28, 2015 - As previously reported	\$ 3,237,772	\$ 3,165,410	\$ 2,382,095
Adjustment for implementation of GASB Statement No. 68	(1,323,751)	(366,346)	(452,708)
Net position - February 28, 2015 - As restated	<u>\$ 1,914,021</u>	<u>\$ 2,799,064</u>	<u>\$ 1,929,387</u>

Required Supplementary Information

Village of Kalkaska
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended February 29, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Property Taxes	\$ 567,266	\$ 567,266	\$ 563,005	\$ (4,261)
Licenses & Permits	2,000	2,000	4,480	2,480
Intergovernmental	165,500	165,500	162,368	(3,132)
Charges for Services	15,200	15,200	20,294	5,094
Fines & Forfeitures	7,000	7,000	7,251	251
Rentals	41,360	41,360	31,614	(9,746)
Refunds & Reimbursements	20,098	20,098	61,114	41,016
Other Revenue	24,238	24,238	4,810	(19,428)
Interest	250	250	331	81
Total Revenues	<u>842,912</u>	<u>842,912</u>	<u>855,267</u>	<u>12,355</u>
Other Financing Sources				
Sale of Capital Asset	--	--	68,026	68,026
Total Revenues and Other Financing Sources	<u>842,912</u>	<u>842,912</u>	<u>923,293</u>	<u>80,381</u>
Expenditures				
Legislative				
Village Council	<u>29,305</u>	<u>94,305</u>	<u>110,601</u>	<u>(16,296)</u>
General Government				
Manager	25,102	35,102	29,503	5,599
Clerk	27,437	27,437	21,139	6,298
Audit	2,490	3,140	3,140	--
Administrative	48,923	40,423	39,200	1,223
Treasurer	15,152	15,152	9,987	5,165
Municipal Building	57,887	98,887	169,829	(70,942)
Total General Government	<u>176,991</u>	<u>220,141</u>	<u>272,798</u>	<u>(52,657)</u>

Village of Kalkaska
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended February 29, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Expenditures				
Public Safety				
Police Department	315,391	287,391	268,678	18,713
Fire Department	4,200	4,730	4,730	--
Total Public Safety	<u>319,591</u>	<u>292,121</u>	<u>273,408</u>	<u>18,713</u>
Public Works				
Department of Public Works	54,178	54,178	37,962	16,216
Airport	22,294	16,494	17,518	(1,024)
Parking Lots	1,158	1,710	1,710	--
Total Public Works	<u>77,630</u>	<u>72,382</u>	<u>57,190</u>	<u>15,192</u>
Community & Economic Development				
Planning Commission	14,921	14,921	10,636	4,285
Recreation & Culture				
Parks	20,455	17,705	16,275	1,430
Museum	--	325	353	(28)
Total Recreation & Culture	<u>20,455</u>	<u>18,030</u>	<u>16,628</u>	<u>1,402</u>
Other Functions				
Property & Liability Insurance	21,840	27,640	14,375	13,265
Employee Insurance	14,928	46,028	70,881	(24,853)
Employer's Additional MERS	87,825	57,825	56,724	1,101
Total Other Functions	<u>124,593</u>	<u>131,493</u>	<u>141,980</u>	<u>(10,487)</u>
Total Expenditures	<u>763,486</u>	<u>843,393</u>	<u>883,241</u>	<u>(39,848)</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>763,486</u>	<u>843,393</u>	<u>883,241</u>	<u>(39,848)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	79,426	(481)	40,052	40,533
Net Change in Fund Balance	<u>79,426</u>	<u>(481)</u>	<u>40,052</u>	<u>40,533</u>
Fund Balance at Beginning of Period	272,801	272,801	272,801	--
Fund Balance at End of Period	<u>\$ 352,227</u>	<u>\$ 272,320</u>	<u>\$ 312,853</u>	<u>\$ 40,533</u>

Village of Kalkaska
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the Year Ended February 29, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Property Taxes	\$ 92,112	\$ 92,112	\$ 91,293	\$ (819)
Intergovernmental	77,576	77,576	74,610	(2,966)
Other Revenue	--	--	56	56
Interest	100	100	163	63
Total Revenues	<u>169,788</u>	<u>169,788</u>	<u>166,122</u>	<u>(3,666)</u>
Other Financing Sources				
Total Revenues and Other Financing Sources	<u>169,788</u>	<u>169,788</u>	<u>166,122</u>	<u>(3,666)</u>
Expenditures				
Audit	581	581	581	--
Administrative	12,242	12,242	11,898	344
Sidewalks	27,500	6,500	8,666	(2,166)
Routine Maintenance	62,113	72,113	43,673	28,440
Preventative Maintenance	2,672	2,672	2,379	293
Traffic Service	3,796	3,796	2,823	973
Winter Maintenance	46,235	46,235	33,617	12,618
Insurance & Fringe Benefits	13,078	15,378	12,741	2,637
Total Expenditures	<u>168,217</u>	<u>159,517</u>	<u>116,378</u>	<u>43,139</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>168,217</u>	<u>159,517</u>	<u>116,378</u>	<u>43,139</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>1,571</u>	<u>10,271</u>	<u>49,744</u>	<u>39,473</u>
Net Change in Fund Balance	<u>1,571</u>	<u>10,271</u>	<u>49,744</u>	<u>39,473</u>
Fund Balance at Beginning of Period	<u>371,758</u>	<u>371,758</u>	<u>371,758</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 373,329</u>	<u>\$ 382,029</u>	<u>\$ 421,502</u>	<u>\$ 39,473</u>

Village of Kalkaska
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended February 29, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Property Taxes	\$ 49,460	\$ 49,460	\$ 48,884	\$ (576)
Intergovernmental	174,740	174,740	289,768	115,028
Other Revenue	--	--	29	29
Interest	200	200	215	15
Total Revenues	<u>224,400</u>	<u>224,400</u>	<u>338,896</u>	<u>114,496</u>
Other Financing Sources				
Insurance Recovery	--	--	13,864	13,864
Total Revenues and Other Financing Sources	<u>224,400</u>	<u>224,400</u>	<u>352,760</u>	<u>128,360</u>
Expenditures				
Audit	581	1,831	1,831	--
Administrative	11,774	12,774	9,920	2,854
Sidewalks	40,000	15,000	5,764	9,236
Routine Maintenance	66,659	215,605	202,465	13,140
Preventative Maintenance	2,690	11,690	3,655	8,035
Traffic Service	24,477	27,977	31,250	(3,273)
Winter Maintenance	46,108	46,108	41,229	4,879
Roadside Parks	--	--	62	(62)
Insurance & Fringe Benefits	21,009	22,959	14,425	8,534
Total Expenditures	<u>213,298</u>	<u>353,944</u>	<u>310,601</u>	<u>43,343</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>213,298</u>	<u>353,944</u>	<u>310,601</u>	<u>43,343</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>11,102</u>	<u>(129,544)</u>	<u>42,159</u>	<u>171,703</u>
Net Change in Fund Balance	<u>11,102</u>	<u>(129,544)</u>	<u>42,159</u>	<u>171,703</u>
<i>Fund Balance at Beginning of Period</i>	552,338	552,338	552,338	--
Fund Balance at End of Period	<u>\$ 563,440</u>	<u>\$ 422,794</u>	<u>\$ 594,497</u>	<u>\$ 171,703</u>

Village of Kalkaska
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Fiscal Year (Schedule is built prospectively upon implementation of GASB 68)

	2016
Total Pension Liability	
Service Cost	\$ 40,600
Interest	393,273
Differences Between Expected & Actual Experience	2,644
Benefit Payments, Including Refunds	(328,709)
<i>Net Change in Pension Liability</i>	107,808
<i>Total Pension Liability - Beginning</i>	4,910,999
<i>Total Pension Liability - Ending (a)</i>	\$ 5,018,807
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 175,915
Contributions - Member	-
Net Investment Income	(39,610)
Benefit Payments, Including Refunds	(328,709)
Administrative Expenses	(5,867)
<i>Net Change in Plan Fiduciary Net Position</i>	(198,271)
<i>Plan Fiduciary Net Position - Beginning</i>	2,738,874
<i>Plan Fiduciary Net Position - Ending (b)</i>	\$ 2,540,603
 <i>Net Pension Liability - Ending (a) - (b)</i>	 \$ 2,478,204
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 50.62%
 Covered Employee Payroll	 \$ 417,523
 Net Pension Liability as a Percentage of Covered Employee Payroll	 593.55%

Village of Kalkaska
Required Supplementary Information
Schedule of Contributions
Last 10 Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially Determined Contribution	\$ 175,915	\$ 163,960	\$ 164,025	\$ 184,824	\$ 110,093	\$ 142,363	\$ 151,005	\$ 145,332	\$ 171,731	\$ 97,143
Contributions in Relation to the Actuarially Determined Contribution	<u>175,915</u>	<u>163,960</u>	<u>164,025</u>	<u>184,824</u>	<u>110,093</u>	<u>142,363</u>	<u>151,005</u>	<u>145,332</u>	<u>171,731</u>	<u>97,143</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	417,523	417,523	410,481	362,832	335,147	450,445	548,203	464,180	535,861	512,902
Contributions as a Percentage of Covered Employee Payroll	42%	39%	40%	51%	33%	32%	28%	31%	32%	19%

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry-age Normal
Amortization method	Level percentage of pay
Remaining amortization period	24 Years Division Specific
Asset valuation method	10-year smoothed
Inflation	3 - 4%
Salary increases	4.5%, including inflation
Investment rate of return	8.25%
Retirement Age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the 1994 Group Annuity Mortality Table

**Village of Kalkaska
Required Supplementary Information
Other Postemployment Benefits Plan
Schedule of Funding Progress**

*	Actuarial	Actuarial	(Overfunded)	Funded	Covered	UAL as a
Actuarial	Value of	Liability	Unfunded	Ratio	Payroll	Percentage
Valuation	Assets	(AAL)	AAL	Total	(c)	of Covered
Date	(a)	Entry Age	(UAAL)			Payroll
		(b)	(b-a)			((b-a)/c)
2/28/2009	\$ -	\$ 6,356,264	\$ 6,356,264	0%	\$ 476,986	1333%
2/28/2012	-	5,630,933	5,630,933	0%	208,428	2702%

Schedule of Employer Contributions

Fiscal	Annual	Percentage
Year	OPEB	of OPEB Cost
Ending	Cost	Contributed
2/28/2014	\$ 200,009	89%
2/28/2015	258,783	36%
2/29/2016	166,900	26%

Other Supplementary Information

**Village of Kalkaska
Combining Balance Sheet
Nonmajor Governmental Funds
February 29, 2016**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Drug Enforcement</u>	<u>Justice Training</u>	<u>Debt Service</u>	
ASSETS				
Cash & Cash Equivalents	\$ 892	\$ 3,059	\$ --	\$ 3,951
Due from Component Unit	--	--	6,705	6,705
<i>Total Assets</i>	<u>\$ 892</u>	<u>\$ 3,059</u>	<u>\$ 6,705</u>	<u>\$ 10,656</u>
FUND BALANCE				
Restricted	892	3,059	6,705	10,656
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	<u>\$ 892</u>	<u>\$ 3,059</u>	<u>\$ 6,705</u>	<u>\$ 10,656</u>

Village of Kalkaska
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended February 29, 2016

	<u>Special Revenue</u>		<u>Debt Service</u>	Total Nonmajor Governmental Funds
	<u>Drug Enforcement</u>	<u>Justice Training</u>	<u>Debt Service</u>	
Revenues				
Intergovernmental	\$ --	\$ 598	\$ 47,506	\$ 48,104
Interest Income	--	2	--	2
Total Revenues	<u>--</u>	<u>600</u>	<u>47,506</u>	<u>48,106</u>
Expenditures				
Public Safety	--	480	--	480
Debt Service - Principal	--	--	30,000	30,000
Debt Service - Interest	--	--	15,335	15,335
Total Expenditures	<u>--</u>	<u>480</u>	<u>45,335</u>	<u>45,815</u>
Excess of Revenues Over (Under) Expenditures	<u>--</u>	<u>120</u>	<u>2,171</u>	<u>2,291</u>
Other Financing Sources (Uses)				
Transfers In	--	--	4,534	4,534
Net Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>4,534</u>	<u>4,534</u>
Net Change in Fund Balance	<u>--</u>	<u>120</u>	<u>6,705</u>	<u>6,825</u>
<i>Fund Balance at Beginning of Period</i>	892	2,939	--	3,831
Fund Balance at End of Period	<u>\$ 892</u>	<u>\$ 3,059</u>	<u>\$ 6,705</u>	<u>\$ 10,656</u>

Village of Kalkaska
Combining Statement of Net Position
Internal Service Funds
February 29, 2016

	<u>Internal Service</u>		<u>Total Internal Service Funds</u>
	<u>Motor Pool</u>	<u>Retiree Healthcare</u>	
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 22,748	\$ 150,432	\$ 173,180
Prepaid Items	692	4,560	5,252
Total Current Assets	<u>23,440</u>	<u>154,992</u>	<u>178,432</u>
<i>Noncurrent Assets</i>			
Capital Assets being Depreciated, net	444,500	--	444,500
Total Assets	<u>467,940</u>	<u>154,992</u>	<u>622,932</u>
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	3,633	431	4,064
Accrued Payroll Liabilities	1,384	--	1,384
Accrued Interest Payable	3,392	--	3,392
Current Portion of Long-term Debt	44,204	--	44,204
Total Current Liabilities	<u>52,613</u>	<u>431</u>	<u>53,044</u>
<i>Noncurrent Liabilities</i>			
Long-term Debt, net	234,409	--	234,409
Total Liabilities	<u>287,022</u>	<u>431</u>	<u>287,453</u>
NET POSITION			
Net Investment In Capital Assets	165,887	--	165,887
<i>Unrestricted</i>	15,031	154,561	169,592
Total Net Position	<u>\$ 180,918</u>	<u>\$ 154,561</u>	<u>\$ 335,479</u>

Village of Kalkaska
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Year Ended February 29, 2016

	Internal Service		Total Internal Service Funds
	Motor Pool	Retiree Healthcare	
Operating Revenues			
Charges for Services	\$ 71,874	\$ --	\$ 71,874
Total Operating Revenues	71,874	--	71,874
Operating Expenses			
Personnel Services	37,352	43,303	80,655
Contractual Services	1,869	--	1,869
Supplies	19,341	--	19,341
Repair & Maintenance	22,004	--	22,004
Depreciation	34,460	--	34,460
Total Operating Expenses	115,026	43,303	158,329
Operating Income (Loss)	(43,152)	(43,303)	(86,455)
Non-Operating Revenues (Expenses)			
Capital Grant	11,250	--	11,250
Interest Income	69	93	162
Interest Expense	(10,085)	--	(10,085)
Net Non-Operating Revenues (Expenses)	1,234	93	1,327
Transfers	(41,918)	(43,210)	(85,128)
Gain on Disposal of Capital Asset	19,000	--	19,000
Transfers In	--	--	--
Transfers Out	--	--	--
Change In Net Position	(22,918)	(43,210)	(66,128)
<i>Net Position at Beginning of Period</i>	203,836	197,771	401,607
Net Position at End of Period	\$ 180,918	\$ 154,561	\$ 335,479

**Village of Kalkaska
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended February 29, 2016**

	<u>Internal Service</u>		<u>Total Internal Service Funds</u>
	<u>Motor Pool</u>	<u>Retiree Healthcare</u>	
Cash Flows from Operating Activities			
Cash Received from Interfund Services Provided	\$ 88,679	\$ -	\$ 88,679
Cash Payments to Employees for Services and Fringe Benefits	(33,797)	(45,599)	(79,396)
Cash Payments to Suppliers for Good and Services	(36,959)	-	(36,959)
Total Cash Flows from (used by) Operating Activities	<u>17,923</u>	<u>(45,599)</u>	<u>(27,676)</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	(181,032)	-	(181,032)
Capital Grant Received	11,250	-	11,250
Proceeds from Installment Purchase Agreement	173,000	-	173,000
Principal Payments on Long-term Debt	(36,000)	-	(36,000)
Interest Payments on Long-term Debt	(6,693)	-	(6,693)
Total Cash Flows from (used by) Capital and Related Financing Activities	<u>(39,475)</u>	<u>-</u>	<u>(39,475)</u>
Cash Flows from Investing Activities			
Interest Income	69	93	162
Total Cash Flows from Investing Activities	<u>69</u>	<u>93</u>	<u>162</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(21,483)	(45,506)	(66,989)
<i>Cash and Cash Equivalents - Beginning of Year</i>	44,231	195,938	240,169
Cash and Cash Equivalents - End of Year	<u>\$ 22,748</u>	<u>\$ 150,432</u>	<u>\$ 173,180</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ (43,152)	\$ (43,303)	\$ (86,455)
Adjustments to Reconcile Operating Income to Net Cash			
Provided (Used) by Operating Activities			
Depreciation Expense	34,460	-	34,460
Changes in Assets & Liabilities			
Accounts Receivable	16,805	-	16,805
Prepaid Items	5,110	(2,727)	2,383
Accounts Payable	3,441	431	3,872
Accrued Payroll Liabilities	1,259	-	1,259
Net Cash Provided (Used) by Operating Activities	<u>\$ 17,923</u>	<u>\$ (45,599)</u>	<u>\$ (27,676)</u>

Village of Kalkaska
Component Unit - Downtown Development Authority
Statement of Net Position and DDA Fund Balance Sheet
February 29, 2016

	<u>DDA Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
<i>Assets</i>			
Cash & Cash Equivalents	\$ 589,495	\$ -	\$ 589,495
Taxes Receivable	31,776	-	31,776
Prepaid Items	9	-	9
<i>Total Current Assets</i>	<u>621,280</u>	<u>-</u>	<u>621,280</u>
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	-	86,560	86,560
Capital Assets being Depreciated, net	-	23,980	23,980
<i>Total Assets</i>	<u>621,280</u>	<u>110,540</u>	<u>731,820</u>
LIABILITIES			
<i>Liabilities</i>			
Accounts Payable	7,996	-	7,996
Due to Village of Kalkaska	104,944	-	104,944
<i>Total Liabilities</i>	<u>112,940</u>	<u>-</u>	<u>112,940</u>
FUND BALANCE			
Unassigned	508,340	-	508,340
<i>Total Fund Balance</i>	<u>508,340</u>	<u>-</u>	<u>508,340</u>
<i>Total Liabilities & Fund Balance</i>	<u>\$ 621,280</u>		
NET POSITION			
Investment in Capital Assets		(110,540)	110,540
Unrestricted		-	508,340
<i>Total Net Position</i>		<u>\$ (110,540)</u>	<u>\$ 618,880</u>

Village of Kalkaska
Component Unit - Downtown Development Authority
Statement of Activities and DDA Fund Revenue,
Expenditures and Changes in Fund Balance
For the Year Ended February 29, 2016

	<u>DDA Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures / Expenses			
Community & Economic Development	\$ 354,639	\$ (23,980)	\$ 330,659
<i>Total Expenditures / Expenses</i>	<u>354,639</u>	<u>(23,980)</u>	<u>330,659</u>
Program Revenue			
Charges for Services	1,138	-	1,138
Operating Grants & Contributions	<u>5,800</u>	<u>-</u>	<u>5,800</u>
<i>Total Program Revenue</i>	<u>6,938</u>	<u>-</u>	<u>6,938</u>
General Revenue			
Property Taxes	122,258	-	122,258
Interest Income	<u>175</u>	<u>-</u>	<u>175</u>
<i>Total General Revenue</i>	<u>122,433</u>	<u>-</u>	<u>122,433</u>
<i>Net Change in Fund Balance / Net Position</i>	(225,268)	23,980	(201,288)
Beginning of Year Fund Balance / Net Position	<u>733,608</u>		<u>820,168</u>
<i>End of Year Fund Balance / Net Position</i>	<u>\$ 508,340</u>		<u>\$ 618,880</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Council of the
Village of 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 Village of Kalkaska, Michigan (the "Village"), as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated August 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village'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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Grand Rapids, MI
August 31, 2016