



VILLAGE OF KALKASKA, MICHIGAN

ANNUAL FINANCIAL REPORT

YEAR ENDED FEBRUARY 28, 2015

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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 28, 2015, 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 28, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and employer contributions for the pension plan and other postemployment benefits 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, 2015 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, 2015

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 28, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$8,785,277 (net position). Of this amount, \$1,224,450, or 14%, 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 \$1,200,728, an increase of \$22,221 in comparison with the prior year. Approximately 21% of this amount (\$255,506) 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 \$255,506, or approximately 30% of total general fund expenditures.

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 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 17 - 18 of this report.

The government-wide financial statements include not only the Village of Kalkaska 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 59 - 60 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 two categories: governmental funds and proprietary 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 five 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 and the major street fund, which are considered to be major funds. Data from the local street fund, drug enforcement fund, and the justice training 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 19 - 22 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 23 – 26 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 29 - 47 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 schedules of funding progress and employer contributions for the pension and other postemployment benefits plans.

Required supplementary information can be found on pages 49 - 52 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 54 - 60 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 exceeded liabilities by \$8,785,277, at the close of the most recent fiscal year.

Village of Kalkaska Statement of Net Position as of February 28, 2015 and February 28, 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 1,396,689	\$ 1,415,033	\$ 1,601,933	\$ 1,474,510	\$ 2,998,622	\$ 2,889,543
Accounts Receivable	17,831	9,191	128,436	139,604	146,267	148,795
Due from Other Governments	171,609	79,470	14,238	-	185,847	79,470
Inventories & Land Held for Resale	1,242	1,240	34,060	33,349	35,302	34,589
Prepaid Items	25,831	43,439	6,270	8,788	32,101	52,227
Total Current Assets	1,613,202	1,548,373	1,784,937	1,656,251	3,398,139	3,204,624
<i>Noncurrent Assets</i>						
Restricted Cash	-	-	858,420	854,087	858,420	854,087
Capital Assets, net	3,237,113	1,578,138	8,030,325	8,299,780	11,267,438	9,877,918
Total Assets	4,850,315	3,126,511	10,673,682	10,810,118	15,523,997	13,936,629
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	37,107	89,674	9,515	34,437	46,622	124,111
Accrued Payroll Liabilities	12,431	6,790	10,238	4,623	22,669	11,413
Accrued Interest Payable	5,338	-	36,350	37,917	41,688	37,917
Current Portion of Long-term Debt	66,000	-	160,000	179,000	226,000	179,000
Internal Balances	89,441	-	(89,441)	-	-	-
Total Current Liabilities	210,317	96,464	126,662	255,977	336,979	352,441
<i>Noncurrent Liabilities</i>						
Compensated Absences	17,491	32,320	4,621	8,176	22,112	40,496
Long-term Debt, net	604,817	-	4,660,000	4,818,650	5,264,817	4,818,650
Other Postemployment Benefits Obligation	779,918	664,584	334,894	285,370	1,114,812	949,954
Total Liabilities	1,612,543	793,368	5,126,177	5,368,173	6,738,720	6,161,541
NET POSITION						
Net Investment in Capital Assets	2,566,296	1,578,138	3,210,325	3,302,130	5,776,621	4,880,268
Restricted	925,786	869,584	858,420	854,087	1,784,206	1,723,671
Unrestricted	(254,310)	(114,579)	1,478,760	1,285,728	1,224,450	1,171,149
Total Net Position	\$ 3,237,772	\$ 2,333,143	\$ 5,547,505	\$ 5,441,945	\$ 8,785,277	\$ 7,775,088

By far, the largest portion of the Village's net position (\$5,776,621, or 66%) 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 (\$1,784,206, or 20%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of

\$1,224,450 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Due from other governments decreased from \$79,470 as of February 28, 2014 to \$171,609 as of February 28, 2015 as a result of larger than usual balances due from state agencies for various grants at year-end.

Restricted cash increased from \$854,087 as of February 28, 2014 to \$858,420 as of February 28, 2015. This is a result of increasing bond restrictions as set forth in the original bond agreements.

The Village's overall net position increased \$1,010,189 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. Governmental activities increased the Village's net position by \$904,629. The total increase was impacted by a bond issuance of \$530,000 within the major street fund.

Property tax revenues in the governmental activities were \$627,489 for the year ending February 28, 2014 and decreased to \$634,825 for the year ending February 28, 2015. The Village is hopeful that the state-wide trend of stabilizing tax bases will be reflected in the Village's tax base in the upcoming years.

Business-type Activities. Business-type activities increased the Village's net position by \$105,560. 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.

Village of Kalkaska
Change in Net Position for Fiscal Years Ended February 28, 2015 and February 28, 2014

	Governmental Activities		Business-type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Revenue						
Program Revenues						
Charges for Services	\$ 117,248	\$ 105,128	\$ 1,398,846	\$ 1,372,603	\$ 1,516,094	\$ 1,477,731
Operating Grants & Contributions	214,853	229,433	-	110,638	214,853	340,071
Capital Grants & Contributions	854,299	77,950	-	-	854,299	77,950
Total Program Revenues	1,186,400	412,511	1,398,846	1,483,241	2,585,246	1,895,752
General Revenues						
Property Taxes	634,825	627,489	-	-	634,825	627,489
Intergovernmental	165,679	166,196	-	-	165,679	166,196
Other Revenue	-	1,197	-	-	-	1,197
Interest Income	233	558	5,296	4,825	5,529	5,383
Transfers In (Out)	-	(39,261)	-	39,261	-	-
Total General Revenues & Transfers	800,737	756,179	5,296	44,086	806,033	800,265
Total Revenues	1,987,137	1,168,690	1,404,142	1,527,327	3,391,279	2,696,017
Expenses						
Legislative	58,430	27,569	-	-	58,430	27,569
General Government	145,952	138,200	-	-	145,952	138,200
Public Safety	260,986	212,400	-	-	260,986	212,400
Public Works	208,123	357,980	-	-	208,123	357,980
Community & Economic Development	8,451	21,887	-	-	8,451	21,887
Recreation & Culture	22,012	10,422	-	-	22,012	10,422
Other Functions	378,554	330,216	-	-	378,554	330,216
Water & Sewer Operations	-	-	1,298,582	1,206,621	1,298,582	1,206,621
Total Expenses	1,082,508	1,098,674	1,298,582	1,206,621	2,381,090	2,305,295
Change in Net Position	904,629	70,016	105,560	320,706	1,010,189	390,722
Net Position at the Beginning of Period	2,333,143	2,263,127	5,441,945	5,121,239	7,775,088	7,384,366
Net Position at the End of Period	\$ 3,237,772	\$ 2,333,143	\$ 5,547,505	\$ 5,441,945	\$ 8,785,277	\$ 7,775,088

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 28, 2015, the Village's governmental funds reported combined fund balances of \$1,200,728, an increase of \$22,221 in comparison with the prior year. Approximately 21% of this amount (\$255,506) 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 (\$19,436 for inventories and prepaid items), or 2) restricted for particular purposes (\$925,786 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 \$255,506. 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 30 percent of total general fund expenditures and transfers out.

The fund balance of the Village's general fund decreased by \$33,046 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 \$28,538 decrease in fund balance during the current fiscal year which put the overall fund balance at \$552,338. This decrease in fund balance is due to the originally budgeted preventative capital outlay expenditures coming in significantly over budget, creating a decrease in fund balance.

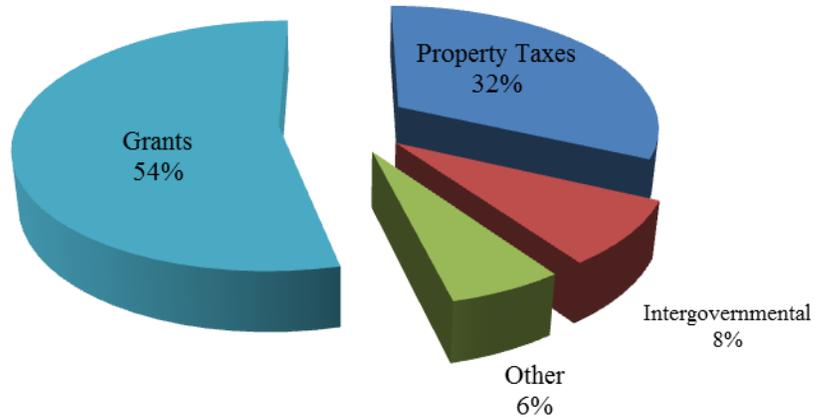
Proprietary Funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year was \$751,616 for the water fund and \$727,144 for the sewer fund. The increase in net position was \$57,900 for the water fund and \$47,660 for the sewer fund. The change in net position for both funds was consistent with prior years.

Governmental Activities

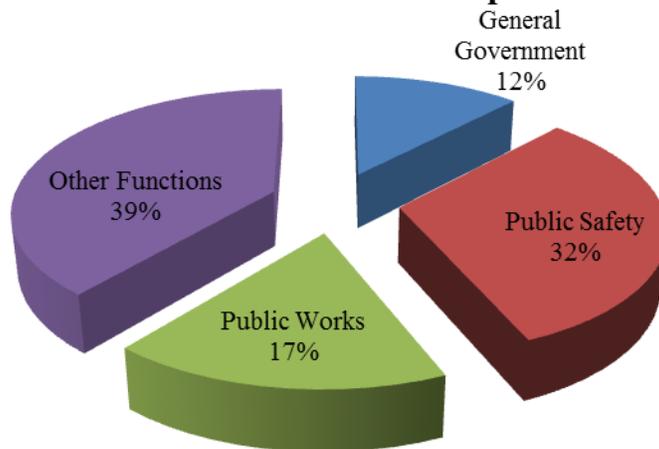
The following chart summarizes the revenue sources for the governmental activities of the Village for the most recent fiscal year end.

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 \$903,523 from the originally budgeted expenditures of \$962,335. This is a result of decreased estimated expenditures in the police department of approximately \$11,000 and decrease estimated expenditures in the legislative group of approximately \$28,200. 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:

Expenditure	Final	Actual	Variance
Legislative			
Village Council	\$ 34,644	\$ 58,429	\$ (23,785)
General Government			
Clerk	10272	18302	(8,030)
Audit	2600	3362	(762)
Administrative	18402	28964	(10,562)
Municipal Building	42199	54716	(12,517)
Public Works			
Department of Public Works	52273	63165	(10,892)
Recreation & Culture			
Parks	20129	21264	(1,135)
Other Functions			
Property & Liability Insurance	26500	29886	(3,386)
Capital Outlay	0	9000	(9,000)

Capital Assets and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2015, amounts to \$11,267,438 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, sidewalks, and water and sewer infrastructure. The following summarizes the Village's capital assets:

	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 1,513,680	\$ 87,934	\$ 1,601,614
Buildings	477,575	13,536	491,111
Land Improvements	352,228	341,614	693,842
Equipment & Vehicles	288,725	40,239	328,964
Water & Sewer System Infrastructure	- 604,905	7,547,002 -	7,547,002 604,905
Subtotal	<u>\$ 3,237,113</u>	<u>\$ 8,030,325</u>	<u>\$ 11,267,438</u>

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 \$5,490,817 in bonds outstanding and settlement payments at the end of the fiscal year. The Village received a capital improvement bond in the amount of \$530,000 during the year, in addition to an installment purchase agreement of \$140,817. The Village is well under its legal debt limit as of year-end.

Economic Condition and Outlook

Management estimates that \$800,000 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 2016, 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
212 Water Street
Kalkaska, MI 48851

Basic Financial Statements

Village of Kalkaska
Statement of Net Position
February 28, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 1,396,689	\$ 1,601,933	\$ 2,998,622	\$ 684,213
Accounts Receivable	17,831	128,436	146,267	--
Taxes Receivable	105,006	14,238	119,244	54,760
Due from Other Governments	66,603	--	66,603	--
Inventories & Land Held for Resale	1,242	34,060	35,302	86,560
Prepaid Items	25,831	6,270	32,101	4
Total Current Assets	1,613,202	1,784,937	3,398,139	825,537
<i>Noncurrent Assets</i>				
Restricted Cash	--	858,420	858,420	--
Capital Assets not being Depreciated	1,513,680	87,934	1,601,614	--
Capital Assets being Depreciated, net	1,723,433	7,942,391	9,665,824	--
Total Assets	4,850,315	10,673,682	15,523,997	825,537
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	37,107	9,515	46,622	5,369
Accrued Payroll Liabilities	12,431	10,238	22,669	--
Accrued Interest Payable	5,338	36,350	41,688	--
Current Portion of Long-term Debt	66,000	160,000	226,000	--
Internal Balances	89,441	(89,441)	--	--
Total Current Liabilities	210,317	126,662	336,979	5,369
<i>Noncurrent Liabilities</i>				
Compensated Absences	17,491	4,621	22,112	--
Long-term Debt, net	604,817	4,660,000	5,264,817	--
Other Postemployment Benefits Obligation	779,918	334,894	1,114,812	--
Total Liabilities	1,612,543	5,126,177	6,738,720	5,369
NET POSITION				
Net Investment In Capital Assets	2,566,296	3,210,325	5,776,621	--
<i>Restricted for:</i>				
Major & Local Streets	921,955	--	921,955	--
Public Safety Programs	3,831	--	3,831	--
Debt Service	--	858,420	858,420	--
<i>Unrestricted</i>	(254,310)	1,478,760	1,224,450	820,168
Total Net Position	\$ 3,237,772	\$ 5,547,505	\$ 8,785,277	\$ 820,168

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

**Village of Kalkaska
Statement of Activities
For the Year End Ended February 28, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
Legislative	\$ 58,430	\$ --	\$ --	\$ --	\$ (58,430)	\$ --	\$ (58,430)	\$ --
General Government	145,952	92,906	4,623	--	(48,423)	--	(48,423)	--
Public Safety	260,986	--	4,975	--	(256,011)	--	(256,011)	--
Public Works	208,123	24,342	205,255	854,299	875,773	--	875,773	--
Recreation & Culture	22,012	--	--	--	(22,012)	--	(22,012)	--
Other	373,216	--	--	--	(373,216)	--	(373,216)	--
Community & Economic Development	8,451	--	--	--	(8,451)	--	(8,451)	--
Interest on Long-term Debt	5,338	--	--	--	(5,338)	--	(5,338)	--
Total Governmental Activities	1,082,508	117,248	214,853	854,299	103,892	--	103,892	--
Business-type Activities:								
Water	441,104	498,488	--	--	--	57,384	57,384	--
Sewer	857,478	900,358	--	--	--	42,880	42,880	--
Total Business-type Activities	1,298,582	1,398,846	--	--	--	100,264	100,264	--
Total Primary Government	\$ 2,381,090	\$ 1,516,094	\$ 214,853	\$ 854,299	\$ 103,892	\$ 100,264	\$ 204,156	--
Component Units								
DDA	\$ 350,027	\$ 951	\$ --	\$ --	--	--	--	(349,076)
Total Component Units	\$ 350,027	\$ 951	\$ --	\$ --	--	--	--	(349,076)
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					634,825	--	634,825	182,505
Intergovernmental					165,679	--	165,679	--
Interest Income					233	5,296	5,529	835
Transfers								
					--	--	--	--
Total General Revenues and Transfers					800,737	5,296	806,033	183,340
Change in Net Position					904,629	105,560	1,010,189	(165,736)
<i>Net Position at Beginning of Period</i>					2,333,143	5,441,945	7,775,088	985,904
<i>Net Position at End of Period</i>					\$ 3,237,772	\$ 5,547,505	\$ 8,785,277	\$ 820,168

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

**Village of Kalkaska
Balance Sheet
Governmental Funds
February 28, 2015**

	<u>Special Revenue</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>		
ASSETS				
Cash & Cash Equivalents	\$ 370,038	\$ 474,823	\$ 311,659	\$ 1,156,520
Accounts Receivable	1,026	--	--	1,026
Taxes Receivable	88,913	3,576	12,517	105,006
Due from Other Governments	24,937	23,972	17,694	66,603
Inventories & Land Held for Resale	--	424	818	1,242
Prepaid Items	17,295	453	448	18,196
Due from Other Funds	--	57,287	48,371	105,658
<i>Total Assets</i>	<u>\$ 502,209</u>	<u>\$ 560,535</u>	<u>\$ 391,507</u>	<u>\$ 1,454,251</u>
LIABILITIES				
Accounts Payable	\$ 23,329	\$ 6,847	\$ 6,739	\$ 36,915
Accrued Payroll Liabilities	8,980	1,350	1,181	11,511
Due to Other Funds	195,099	--	--	195,099
<i>Total Liabilities</i>	<u>227,408</u>	<u>8,197</u>	<u>7,920</u>	<u>243,525</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues	2,000	--	7,998	9,998
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>229,408</u>	<u>8,197</u>	<u>15,918</u>	<u>253,523</u>
FUND BALANCE				
Nonspendable	17,295	875	1,266	19,436
Restricted	--	551,463	374,323	925,786
Unassigned	255,506	--	--	255,506
<i>Total Fund Balance</i>	<u>272,801</u>	<u>552,338</u>	<u>375,589</u>	<u>1,200,728</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 502,209</u>	<u>\$ 560,535</u>	<u>\$ 391,507</u>	<u>\$ 1,454,251</u>

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 28, 2015

Total Fund Balance - Governmental Funds	\$ 1,200,728
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.	401,607
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.	2,958,186
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.	(1,332,747)
Unavailable revenues are not available to pay current period expenditures and, therefore, are deferred inflows of resources in the funds.	9,998
Total Net Position - Governmental Funds	\$ <u>3,237,772</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 End Ended February 28, 2015

	<u>Special Revenue</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>		
Revenues				
Property Taxes	\$ 538,995	\$ 21,292	\$ 74,538	\$ 634,825
Licenses & Permits	3,600	--	--	3,600
Intergovernmental	181,827	1,000,902	59,152	1,241,881
Charges for Services	2,677	--	--	2,677
Fines & Forfeitures	2,256	--	--	2,256
Rentals	47,996	--	--	47,996
Other Revenue	35,351	152	533	36,036
Interest Income	15	118	100	233
Total Revenues	<u>812,717</u>	<u>1,022,464</u>	<u>134,323</u>	<u>1,969,504</u>
Expenditures				
Legislative	58,429	--	--	58,429
General Government	145,980	--	--	145,980
Public Safety	259,425	--	561	259,986
Public Works	85,332	119,192	49,957	254,481
Recreation & Culture	21,264	--	--	21,264
Community & Economic Development	8,451	--	--	8,451
Other	257,882	--	--	257,882
Capital Outlay	9,000	1,461,810	--	1,470,810
Total Expenditures	<u>845,763</u>	<u>1,581,002</u>	<u>50,518</u>	<u>2,477,283</u>
Excess of Revenues Over (Under) Expenditures	<u>(33,046)</u>	<u>(558,538)</u>	<u>83,805</u>	<u>(507,779)</u>
Other Financing Sources (Uses)				
Capital Improvement Bond Issuance	--	530,000	--	530,000
Net Other Financing Sources (Uses)	<u>--</u>	<u>530,000</u>	<u>--</u>	<u>530,000</u>
Net Change in Fund Balance	(33,046)	(28,538)	83,805	22,221
<i>Fund Balance at Beginning of Period</i>	305,847	580,876	291,784	1,178,507
Fund Balance at End of Period	<u>\$ 272,801</u>	<u>\$ 552,338</u>	<u>\$ 375,589</u>	<u>\$ 1,200,728</u>

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 End Ended February 28, 2015

Total Net Change in Fund Balances - Governmental Funds	\$	22,221
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		103,680
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 of \$1,470,810 exceeds depreciation expense of \$65,459 during the current year.		1,405,351
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.		(106,621)
Proceeds from debt issuance are reported as revenue in the fund statements, but are reported as liabilities on the statement of net position.		(530,000)
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.		9,998
Changes in Net Position - Governmental Funds	\$	<u>904,629</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 28, 2015

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise</u>	<u>Internal Service</u>
			Funds	Funds
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 924,863	\$ 677,070	\$ 1,601,933	\$ 240,169
Accounts Receivable	40,066	88,370	128,436	16,805
Taxes Receivable	1,749	12,489	14,238	--
Inventories & Land Held for Resale	9,336	24,724	34,060	--
Prepaid Items	3,959	2,311	6,270	7,635
Due from Other Funds	--	89,441	89,441	--
Total Current Assets	<u>979,973</u>	<u>894,405</u>	<u>1,874,378</u>	<u>264,609</u>
<i>Noncurrent Assets</i>				
Restricted Cash	--	858,420	858,420	--
Capital Assets not being Depreciated	--	87,934	87,934	--
Capital Assets being Depreciated, net	2,442,394	5,499,997	7,942,391	278,927
Total Assets	<u>3,422,367</u>	<u>7,340,756</u>	<u>10,763,123</u>	<u>543,536</u>
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	4,499	5,016	9,515	192
Accrued Payroll Liabilities	4,515	5,723	10,238	920
Accrued Interest Payable	286	36,064	36,350	--
Current Portion of Long-term Debt	28,600	131,400	160,000	36,000
Total Current Liabilities	<u>37,900</u>	<u>178,203</u>	<u>216,103</u>	<u>37,112</u>
<i>Noncurrent Liabilities</i>				
Compensated Absences	1,435	3,186	4,621	--
Long-term Debt, net	--	4,660,000	4,660,000	104,817
Other Postemployment Benefits Obligation	217,622	117,272	334,894	--
Total Liabilities	<u>256,957</u>	<u>4,958,661</u>	<u>5,215,618</u>	<u>141,929</u>
NET POSITION				
Net Investment In Capital Assets	2,413,794	796,531	3,210,325	138,110
<i>Restricted for:</i>				
Debt Service	--	858,420	858,420	--
<i>Unrestricted</i>	751,616	727,144	1,478,760	263,497
Total Net Position	<u>\$ 3,165,410</u>	<u>\$ 2,382,095</u>	<u>\$ 5,547,505</u>	<u>\$ 401,607</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 End Ended February 28, 2015

	Business-type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total Enterprise Funds	Activities Internal Service Funds
Operating Revenues				
Intergovernmental	\$ --	\$ --	\$ --	\$ 184,185
Charges for Services	494,596	893,707	1,388,303	--
Rentals	--	--	--	97,311
Other Revenue	3,892	6,651	10,543	--
Total Operating Revenues	498,488	900,358	1,398,846	281,496
Operating Expenses				
Personnel Services	201,952	232,574	434,526	130,174
Contractual Services	45,973	97,540	143,513	856
Supplies	18,793	4,715	23,508	21,911
Materials	8,362	9,352	17,714	--
Utilities & Maintenance	39,768	70,108	109,876	--
Repair & Maintenance	11,607	31,129	42,736	11,170
Equipment Rental	9,230	5,377	14,607	--
Depreciation	100,851	183,547	284,398	13,845
Total Operating Expenses	436,536	634,342	1,070,878	177,956
Operating Income (Loss)	61,952	266,016	327,968	103,540
Non-Operating Revenues (Expenses)				
Interest Income	516	4,780	5,296	140
Interest on Long-term Debt	(4,568)	(223,136)	(227,704)	--
Net Non-Operating Revenues (Expenses)	(4,052)	(218,356)	(222,408)	140
Change In Net Position	57,900	47,660	105,560	103,680
<i>Net Position at Beginning of Period</i>	3,107,510	2,334,435	5,441,945	297,927
Net Position at End of Period	\$ 3,165,410	\$ 2,382,095	\$ 5,547,505	\$ 401,607

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 28, 2015**

	<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	\$ 496,506	\$ 899,270	\$ 1,395,776	\$ -
Cash Received from Interfund Services Provided	-	-	-	264,691
Cash Payments to Employees for Services and Fringe Benefits	(168,201)	(214,741)	(382,942)	(135,271)
Cash Payments to Suppliers for Good and Services	(143,085)	(231,981)	(375,066)	(45,383)
Total Cash Flows from Operating Activities	<u>185,220</u>	<u>452,548</u>	<u>637,768</u>	<u>84,037</u>
Cash Flows from Capital and Related Financing Activities				
Purchases of Capital Assets		(14,943)	(14,943)	(267,470)
Principal Payments on Bonds	(54,900)	(122,750)	(177,650)	-
Interest Payments on Bonds	(5,074)	(224,200)	(229,274)	-
Total Cash Flows from Capital and Related Financing Activities	<u>(59,974)</u>	<u>(361,893)</u>	<u>(421,867)</u>	<u>(267,470)</u>
Cash Flows from Investing Activities				
Collection of Interfund Balances	-	(89,441)	(89,441)	-
Interest Income	516	4,780	5,296	140
Total Cash Flows from Investing Activities	<u>516</u>	<u>(84,661)</u>	<u>(84,145)</u>	<u>140</u>
Net Increase (Decrease) in Cash and Cash Equivalents	125,762	5,994	131,756	(183,293)
<i>Cash and Cash Equivalents - Beginning of Year</i>	799,101	1,529,496	2,328,597	282,644
Cash and Cash Equivalents - End of Year	<u>\$ 924,863</u>	<u>\$ 1,535,490</u>	<u>\$ 2,460,353</u>	<u>\$ 99,351</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 28, 2015

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>	Activities Internal Service Fund
Statement of Net Position Classification of Cash and Cash Equivalents				
Cash & Cash Equivalents	\$ 924,863	\$ 677,070	\$ 1,601,933	\$ 99,351
Restricted Cash	-	858,420	858,420	-
Cash & Cash Equivalents	<u>\$ 924,863</u>	<u>\$ 1,535,490</u>	<u>\$ 2,460,353</u>	<u>\$ 99,351</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income	\$ 61,952	\$ 266,016	\$ 327,968	\$ 103,540
Adjustments to Reconcile Operating Income to Net Cash				
Provided (Used) by Operating Activities				
Depreciation Expense	100,851	183,547	284,398	13,845
Changes in Assets & Liabilities				
Receivables	(1,982)	(1,088)	(3,070)	(16,805)
Prepaid Items	1,008	1,510	2,518	11,335
Inventory	(716)	5	(711)	-
Accounts Payable	(9,644)	(15,275)	(24,919)	(27,614)
Accrued Payroll and Related Liabilities	1,569	491	2,060	(264)
Net Other Postemployment Benefits	32,182	17,342	49,524	
Net Cash Provided by Operating Activities	<u>\$ 185,220</u>	<u>\$ 452,548</u>	<u>\$ 637,768</u>	<u>\$ 84,037</u>

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 28, 2015**

	Agency
	Tax Fund
ASSETS	
Cash & Cash Equivalents	\$ 854
<i>Total Assets</i>	854
LIABILITIES	
Current liabilities	854
<i>Total Liabilities</i>	854
NET POSITION	
Held in Trust	\$ --

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 unit, an entity for which the Village is considered to be financially accountable. The discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize 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 unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported

Village of Kalkaska

Notes to the Financial Statements

separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or 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 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.

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

Village of Kalkaska

Notes to the Financial Statements

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 28, 2015 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 activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with n initials, 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

Village of Kalkaska

Notes to the Financial Statements

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 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

Village of Kalkaska

Notes to the Financial Statements

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

Village of Kalkaska

Notes to the Financial Statements

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 28, 2014. 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 28, 2015, 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	\$ 34,644	\$ 58,429	\$ (23,785)
General Government			
Clerk	10,272	18,302	(8,030)
Audit	2,600	3,362	(762)
Administrative	18,402	28,964	(10,562)
Municipal Building	42,199	54,716	(12,517)
Public Works			
Department of Public Works	52,273	63,165	(10,892)
Recreation & Culture			
Parks	20,129	21,264	(1,135)
Other Functions			
Property & Liability Insurance	26,500	29,886	(3,386)
Capital Outlay	-	9,000	(9,000)
 Major Streets Fund			
Audit	-	738	(738)
Routine Maintenance	38,738	1,294,905	(1,256,167)

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>
Statement of Net Position				
Cash & Cash Equivalents	\$ 1,396,689	\$ 1,601,933	\$ 2,998,622	\$ 684,213
Restricted Cash	-	858,420	858,420	-
Total Cash & Cash Equivalents	<u>\$ 1,396,689</u>	<u>\$ 2,460,353</u>	<u>\$ 3,857,042</u>	<u>\$ 684,213</u>

Village of Kalkaska

Notes to the Financial Statements

These deposits are held in three (3) financial institutions located in Michigan in varying amounts. 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.

Deposits & Investments	
Checking & Savings Accounts	\$ 3,873,840
Certificates of Deposit	666,815
Cash on Hand	600
Total Cash & Cash Equivalents	<u>\$ 4,541,255</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, \$3,897,989 of the Villages bank balance of \$4,647,989 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.

Village of Kalkaska

Notes to the Financial Statements

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

Note 4 - Capital Assets

Capital asset activities for governmental activities for the year ended February 28, 2015 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>246,371</u>	<u>1,267,309</u>	<u>-</u>	<u>1,513,680</u>
Capital Assets being Depreciated				
Buildings	674,099	-	-	674,099
Land Improvements	991,358	-	-	991,358
Equipment & Vehicles	879,028	276,470	204,209	951,289
Infrastructure	552,389	194,501	-	746,890
Total Capital Assets being Depreciated	<u>3,096,874</u>	<u>470,971</u>	<u>204,209</u>	<u>3,363,636</u>
Less Accumulated Depreciation				
Buildings	182,867	13,657	-	196,524
Land Improvements	606,085	33,045	-	639,130
Equipment & Vehicles	849,601	17,172	204,209	662,564
Infrastructure	126,554	15,431	-	141,985
Total Accumulated Depreciation	<u>1,765,107</u>	<u>79,305</u>	<u>204,209</u>	<u>1,640,203</u>
Net Capital Assets being Depreciated	<u>1,331,767</u>	<u>550,276</u>	<u>408,418</u>	<u>1,723,433</u>
Net Capital Assets, Governmental	<u>\$ 1,578,138</u>	<u>\$ 1,817,585</u>	<u>\$ 408,418</u>	<u>\$ 3,237,113</u>

Village of Kalkaska

Notes to the Financial Statements

Capital asset activities for business-type activities for the year ended February 28, 2015 were as follows:

Business-type Activities	Beginning of Year	Additions	Disposals	End of Year
Capital Assets not being Depreciated				
Land	\$ 87,934	\$ -	\$ -	\$ 87,934
Capital Assets being Depreciated				
Buildings	38,943	-	-	38,943
Land Improvements	539,391	-	-	539,391
Equipment & Vehicles	227,232	-	2,685	224,547
Water & Sewer System	12,444,783	14,943	-	12,459,726
Total Capital Assets being Depreciated	<u>13,250,349</u>	<u>14,943</u>	<u>2,685</u>	<u>13,262,607</u>
Less Accumulated Depreciation				
Buildings	24,542	865	-	25,407
Land Improvements	179,797	17,980	-	197,777
Equipment & Vehicles	177,260	9,733	2,685	184,308
Water & Sewer System	4,656,904	255,820	-	4,912,724
Total Accumulated Depreciation	<u>5,038,503</u>	<u>284,398</u>	<u>2,685</u>	<u>5,320,216</u>
Net Capital Assets being Depreciated	<u>8,211,846</u>	<u>(269,455)</u>	<u>-</u>	<u>7,942,391</u>
Net Capital Assets, Governmental	<u>\$ 8,299,780</u>	<u>\$ (269,455)</u>	<u>\$ -</u>	<u>\$ 8,030,325</u>

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

Governmental Activities	
General Government	\$ 16,537
Public Safety	1,000
Public Works	52,638
Recreation & Culture	748
Depreciation Charged to the Internal Service Fund	8,382
Total Governmental Activities	<u>\$ 79,305</u>
Business-type Activities	
Water Fund	\$ 100,851
Sewer Fund	183,547
Total Business-type Activities	<u>\$ 284,398</u>

Village of Kalkaska

Notes to the Financial Statements

Note 5 – Interfund Transactions

The composition of interfund balances as of February 28, 2015, was as follows:

Receivable Fund	Payable Fund	Amount
Local Streets	General	\$ 48,371
Major Streets	General	57,287
Sewer	General	89,441

All amounts due from other funds represent advances to other funds to finance operations or capital outlays. There were no interfund transfers for the year ended February 28, 2015.

Note 6 – Long-Term Debt

Long-term debt activity for the year ended February 28, 2015 is as follows:

	Beginning of Year	Additions	Reductions	End of Year	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 32,320	\$ -	\$ 14,829	\$ 17,491	\$ -
OPEB Obligation	664,584	115,334	-	779,918	-
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	-	530,000	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	-	140,817	36,000
Total Governmental Activities	696,904	786,151	14,829	1,468,226	66,000

Village of Kalkaska

Notes to the Financial Statements

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.	125,000	-	60,000	65,000	65,000
1996 Water and Sewage Disposal System Revenue Bonds, payable in semi-annual installments of \$65,000 - \$75,000 plus interest at 5.0%, through February 2015.	75,000	-	75,000	-	-
2002 Sewage System Bonds, payable in semi-annual installments of \$30,000 - \$145,000, plus interest at 4.5%, through January 1, 2042.	4,799,000	-	44,000	4,755,000	95,000
Unamortized Bond Discount	(1,350)		(1,350)	-	-
OPEB Obligation	285,370	49,524	-	334,894	-
Compensated Absences	8,176	-	3,555	4,621	-
Total Business-type Activities	5,291,196	49,524	181,205	5,159,515	160,000
Total Primary Government Long-term Debt	\$ 5,988,100	\$ 835,675	\$ 196,034	\$ 6,627,741	\$ 226,000

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity on the total long-term debt obligations outstanding at February 28, 2015 are as follows:

Year Ending February 28,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 66,000	\$ 19,551	\$ 85,551
2017	65,204	17,857	83,061
2018	70,204	15,977	86,182
2019	69,409	13,949	83,357
2020	35,000	11,920	46,920
2021-2025	195,000	43,061	238,061
2026-2029	170,000	12,963	182,963
Totals:	\$ 670,817	\$ 135,278	\$ 806,095

Village of Kalkaska

Notes to the Financial Statements

Year Ending February 28,	Business-type Activities		
	Principal	Interest	Total
2016	\$ 160,000	\$ 218,100	\$ 378,100
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
2021-2025	750,000	869,628	1,619,628
2026-2030	875,000	689,628	1,564,628
2031-2035	1,000,000	481,502	1,481,502
2036-2040	1,080,000	248,176	1,328,176
2041-2042	445,000	30,376	475,376
Totals:	\$ 4,820,000	\$ 3,343,812	\$ 8,163,812

The compensated absence, 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 with 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 28, 2015, 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.

Note 8 – Defined Benefit Pension Plan

Municipal Employees Retirement System of Michigan

Plan Description. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time Village employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Village of Kalkaska

Notes to the Financial Statements

Funding Policy. The Village is required to contribute at an actuarially determined rate; the current rate varies by employment group from 19.95% to 37.87% percent of annual covered payroll. Participating employees are required to contribute at a rate of zero percent for all employment groups. The contribution requirements of the Village are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Village depending on the MERS contribution program adoption by the Village.

Plan Contributions. For the year ended February 28, 2015, the Village's annual pension cost for MERS of \$163,960 was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 13% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis.

The remaining amortization period at December 31, 2014, the date of the latest actuarial valuation, was 24 years.

Three-year Trend Information			
Fiscal	Annual	Percentage	Net
Year	Pension	of APC	Pension
Ended	Cost (APC)	Contributed	Obligation
2013	\$ 146,199	100%	\$ -
2014	156,192	100%	-
2015	163,960	100%	-

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the Plan was 58 percent funded. The actuarial accrued liability for benefits was \$5,033,031, and the actuarial value of assets was \$2,903,034, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,129,997. The covered payroll (annual payroll of active employees covered by the Plan) was \$417,523, and the ratio of the UAAL to the covered payroll was 510 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Village of Kalkaska

Notes to the Financial Statements

Note 9 - Other Postemployment Benefits

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 28, 2015, the Village contributed \$93,925 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 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:

Annual Required Contribution	\$ 276,615
Interest on Net OPEB Obligation	11,065
Adjustment to Annual Required Contribution	<u>(28,897)</u>
Annual OPEB Cost (Expense)	258,783
Less: Contributions Made	<u>(93,925)</u>
<i>Increase in OPEB Obligation</i>	164,858
<i>Net OPEB Obligation - Beginning of Year</i>	<u>949,954</u>
<i>Net OPEB Obligation - End of Year</i>	<u>\$ 1,114,812</u>

Village of Kalkaska

Notes to the Financial Statements

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:

	<u>2/28/2013</u>	<u>2/28/2014</u>	<u>2/28/2015</u>
Annual OPEB Cost (Expense)	\$ 182,798	\$ 200,009	\$ 258,783
Percentage of OPEB Cost Contributed	137%	89%	36%
Net OPEB Obligation	\$ 928,506	\$ 949,954	\$ 1,114,812

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 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.

Village of Kalkaska

Notes to the Financial Statements

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 percentage of projected payrolls on an open basis. The remaining amortization period at February 28, 2015, was 29 years.

Note 11 – Subsequent Events

Management is not aware of any subsequent events that would have a significant impact on the financial condition of the Village as of August 31, 2015.

Required Supplementary Information

Village of Kalkaska
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year End Ended February 28, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 531,821	\$ 531,821	\$ 538,995	\$ 7,174
Licenses & Permits	2,200	2,000	3,600	1,600
Intergovernmental	164,640	164,640	181,827	17,187
Charges for Services	5,000	5,000	2,677	(2,323)
Fines & Forfeitures	7,000	7,000	2,256	(4,744)
Rentals	41,842	41,842	47,996	6,154
Other Revenue	63,577	63,577	35,351	(28,226)
Interest	--	--	15	15
Total Revenues	<u>816,080</u>	<u>815,880</u>	<u>812,717</u>	<u>(3,163)</u>
Expenditures				
Legislative				
Village Council	<u>62,838</u>	<u>34,644</u>	<u>58,429</u>	<u>(23,785)</u>
General Government				
Manager	28,779	28,779	28,344	435
Clerk	10,272	10,272	18,302	(8,030)
Audit	2,600	2,600	3,362	(762)
Administrative	38,020	18,402	28,964	(10,562)
Treasurer	29,254	29,254	12,292	16,962
Elections	1,500	1,500	--	1,500
Municipal Building	42,199	42,199	54,716	(12,517)
Total General Government	<u>152,624</u>	<u>133,006</u>	<u>145,980</u>	<u>(12,974)</u>
Public Safety				
Police Department	273,735	262,735	259,425	3,310
Fire Department	200	200	--	200
Total Public Safety	<u>273,935</u>	<u>262,935</u>	<u>259,425</u>	<u>3,510</u>
Public Works				
Department of Public Works	52,273	52,273	63,165	(10,892)
Airport	23,254	23,254	16,481	6,773
Parking Lots	10,131	10,131	5,686	4,445
Total Public Works	<u>85,658</u>	<u>85,658</u>	<u>85,332</u>	<u>326</u>
Community and Economic Development				
Planning Commission	<u>15,199</u>	<u>15,199</u>	<u>8,451</u>	<u>6,748</u>
Recreation & Culture				
Parks	<u>20,129</u>	<u>20,129</u>	<u>21,264</u>	<u>(1,135)</u>
Other Functions				
Property & Liability Insurance	26,500	26,500	29,886	(3,386)
Employee Insurance	309,552	309,552	227,996	81,556
Total Other Functions	<u>336,052</u>	<u>336,052</u>	<u>257,882</u>	<u>78,170</u>
Capital Outlay				
	<u>--</u>	<u>--</u>	<u>9,000</u>	<u>(9,000)</u>
Debt Service				
	<u>15,900</u>	<u>15,900</u>	<u>--</u>	<u>15,900</u>
Total Expenditures	962,335	903,523	845,763	57,760
Other Financing Uses				
Transfers Out	<u>20,000</u>	<u>20,000</u>	<u>--</u>	<u>20,000</u>
Total Expenditures and Other Financing Uses	<u>982,335</u>	<u>923,523</u>	<u>845,763</u>	<u>77,760</u>
Excess (Deficiency) of Revenues and Other Expenditures and Other Uses	<u>(166,255)</u>	<u>(107,643)</u>	<u>(33,046)</u>	<u>74,597</u>
Net Change in Fund Balance	<u>(166,255)</u>	<u>(107,643)</u>	<u>(33,046)</u>	<u>74,597</u>
Fund Balance at Beginning of Period	305,847	305,847	305,847	--
Fund Balance at End of Period	<u>\$ 139,592</u>	<u>\$ 198,204</u>	<u>\$ 272,801</u>	<u>\$ 74,597</u>

Village of Kalkaska
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year End Ended February 28, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				Final to Actual
Revenues				
Property Taxes	\$ 21,054	\$ 21,054	\$ 21,292	\$ 238
Charges for Services	288,000	288,000	1,000,902	712,902
Refunds & Reimbursements	8,000	8,000	--	(8,000)
Other Revenue	230	230	152	(78)
Interest	200	200	118	(82)
Total Revenues	<u>317,484</u>	<u>317,484</u>	<u>1,022,464</u>	<u>704,980</u>
Other Financing Sources				
Capital Improvement Bond Issuance	--	--	530,000	530,000
Total Revenues and Other Financing Sources	<u>317,484</u>	<u>317,484</u>	<u>1,552,464</u>	<u>1,234,980</u>
Expenditures				
Audit	--	--	738	(738)
Administrative	10,560	10,560	9,845	715
Routine Maintenance	38,738	38,738	1,294,905	(1,256,167)
Preventative Maintenance	247,288	247,288	221,202	26,086
Traffic Service	13,087	13,087	5,780	7,307
Winter Maintenance	57,856	57,856	31,951	25,905
Roadside Parks	3,402	3,402	365	3,037
Insurance & Fringe Benefits	18,478	18,478	16,216	2,262
Total Expenditures	<u>389,409</u>	<u>389,409</u>	<u>1,581,002</u>	<u>(1,191,593)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>(71,925)</u>	<u>(71,925)</u>	<u>(28,538)</u>	<u>43,387</u>
Net Change in Fund Balance	<u>(71,925)</u>	<u>(71,925)</u>	<u>(28,538)</u>	<u>43,387</u>
<i>Fund Balance at Beginning of Period</i>	580,876	580,876	580,876	--
Fund Balance at End of Period	<u>\$ 508,951</u>	<u>\$ 508,951</u>	<u>\$ 552,338</u>	<u>\$ 43,387</u>

Village of Kalkaska
Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2012	\$ 2,872,233	\$ 4,731,154	\$ 1,858,921	61%	\$ 362,832	512%
12/31/2013	2,891,162	4,869,143	1,977,981	59%	410,481	482%
12/31/2014	2,903,034	5,033,031	2,129,997	58%	417,523	510%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed
2013	\$ 146,289	100%
2014	164,025	100%
2015	163,960	100%

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

* Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((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 Year Ending	Annual Pension Cost	Percentage of APC Contributed
2/28/2013	\$ 182,798	137%
2/28/2014	200,009	89%
2/28/2015	258,783	36%

* A plan of this size is not required to be valued each year. Additional years of data will be included in future years as revised valuations are necessary.

Other Supplementary Information

**Village of Kalkaska
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2015**

	Special Revenue			Total Nonmajor Governmental Funds
	Local Streets	Drug Enforcement	Justice Training	
ASSETS				
Cash & Cash Equivalents	\$ 307,517	\$ 892	\$ 3,250	\$ 311,659
Taxes Receivable	12,517	--	--	12,517
Due from Other Governments	17,694	--	--	17,694
Inventories & Land Held for Resale	818	--	--	818
Prepaid Items	448	--	--	448
Due from Other Funds	48,371	--	--	48,371
<i>Total Assets</i>	\$ 387,365	\$ 892	\$ 3,250	\$ 391,507
LIABILITIES				
Accounts Payable	\$ 6,428	\$ --	\$ 311	\$ 6,739
Accrued Payroll Liabilities	1,181	--	--	1,181
<i>Total Liabilities</i>	7,609	--	311	7,920
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	7,998	--	--	7,998
<i>Total Liabilities and Deferred Inflows of Resources</i>	15,607	--	311	15,918
FUND BALANCE				
Nonspendable	1,266	--	--	1,266
Restricted	370,492	892	2,939	374,323
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	371,758	892	2,939	375,589
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	\$ 387,365	\$ 892	\$ 3,250	\$ 391,507

Village of Kalkaska
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year End Ended February 28, 2015

	<u>Special Revenue</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Local Streets</u>	<u>Drug Enforcement</u>	<u>Justice Training</u>	
Revenues				
Property Taxes	\$ 74,538	\$ --	\$ --	\$ 74,538
Intergovernmental	58,652	--	500	59,152
Other Revenue	533	--	--	533
Interest Income	99	--	1	100
Total Revenues	<u>133,822</u>	<u>--</u>	<u>501</u>	<u>134,323</u>
Expenditures				
Public Safety	--	--	561	561
Public Works	49,957	--	--	49,957
Total Expenditures	<u>49,957</u>	<u>--</u>	<u>561</u>	<u>50,518</u>
Excess of Revenues Over (Under) Expenditures	<u>83,865</u>	<u>--</u>	<u>(60)</u>	<u>83,805</u>
Net Change in Fund Balance	83,865	--	(60)	83,805
<i>Fund Balance at Beginning of Period</i>	287,893	892	2,999	291,784
Fund Balance at End of Period	\$ 371,758	\$ 892	\$ 2,939	\$ 375,589

Village of Kalkaska
Combining Statement of Net Position
Internal Service Funds
February 28, 2015

	Internal Service		Total Internal Service Funds
	Motor Pool	Retiree Healthcare	
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 44,231	\$ 195,938	\$ 240,169
Accounts Receivable	16,805	--	16,805
Prepaid Items	5,802	1,833	7,635
Total Current Assets	66,838	197,771	264,609
<i>Noncurrent Assets</i>			
Capital Assets being Depreciated, net	278,927	--	278,927
Total Assets	345,765	197,771	543,536
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	192	--	192
Accrued Payroll Liabilities	920	--	920
Current Portion of Long-term Debt	36,000	--	36,000
Total Current Liabilities	37,112	--	37,112
<i>Noncurrent Liabilities</i>			
Long-term Debt, net	104,817	--	104,817
Total Liabilities	141,929	--	141,929
NET POSITION			
Net Investment In Capital Assets	138,110	--	138,110
<i>Unrestricted</i>	65,726	197,771	263,497
Total Net Position	\$ 203,836	\$ 197,771	\$ 401,607

Village of Kalkaska
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Year End Ended February 28, 2015

	<u>Internal Service</u>		<u>Total Internal Service Funds</u>
	<u>Motor Pool</u>	<u>Retiree Healthcare</u>	
Operating Revenues			
Intergovernmental	\$ 90,260	\$ 93,925	\$ 184,185
Rentals	97,311	--	97,311
<i>Total Operating Revenues</i>	<u>187,571</u>	<u>93,925</u>	<u>281,496</u>
Operating Expenses			
Personnel Services	36,185	93,989	130,174
Contractual Services	856	--	856
Supplies	21,911	--	21,911
Repair & Maintenance	11,170	--	11,170
Depreciation	13,845	--	13,845
<i>Total Operating Expenses</i>	<u>83,967</u>	<u>93,989</u>	<u>177,956</u>
<i>Operating Income (Loss)</i>	<u>103,604</u>	<u>(64)</u>	<u>103,540</u>
Non-Operating Revenues (Expenses)			
Interest Income	32	108	140
<i>Net Non-Operating Revenues</i>	<u>32</u>	<u>108</u>	<u>140</u>
<i>Change In Net Position</i>	103,636	44	103,680
<i>Net Position at Beginning of Period</i>	100,200	197,727	297,927
<i>Net Position at End of Period</i>	<u>\$ 203,836</u>	<u>\$ 197,771</u>	<u>\$ 401,607</u>

Village of Kalkaska
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended February 28, 2015

	<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	\$ 170,766	\$ 93,925	\$ 264,691
Cash Payments to Employees for Services and Fringe Benefits	(36,449)	(98,822)	(135,271)
Cash Payments to Suppliers for Good and Services	(45,383)	-	(45,383)
Total Cash Flows from Operating Activities	<u>88,934</u>	<u>(4,897)</u>	<u>84,037</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	(267,470)	-	(267,470)
Issuance of Long-term Debt	140,817	-	140,817
Total Cash Flows from Capital and Related Financing Activities	<u>(126,653)</u>	<u>-</u>	<u>(267,470)</u>
Cash Flows from Investing Activities			
Interest Income	32	108	140
Total Cash Flows from Investing Activities	<u>32</u>	<u>108</u>	<u>140</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(37,687)	(4,789)	(183,293)
<i>Cash and Cash Equivalents - Beginning of Year</i>	81,917	200,727	282,644
Cash and Cash Equivalents - End of Year	<u>\$ 44,230</u>	<u>\$ 195,938</u>	<u>\$ 99,351</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ 103,604	\$ (64)	\$ 103,540
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	13,845	-	13,845
Changes in Assets & Liabilities			
Accounts Receivable	(16,805)	-	(16,805)
Prepaid Items	(251)	11,586	11,335
Accounts Payable	(11,195)	(16,419)	(27,614)
Accrued Payroll Liabilities	(264)	-	(264)
Net Cash Provided by Operating Activities	<u>\$ 88,934</u>	<u>\$ (4,897)</u>	<u>\$ 84,037</u>

Village of Kaskaska
Component Unit - Downtown Development Authority
Statement of Net Position and DDA Fund Balance Sheet
February 28, 2015

	<u>DDA Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
<i>Assets</i>			
Cash & Cash Equivalents	\$ 684,213	\$ -	\$ 684,213
Taxes Receivable	54,760	-	54,760
Inventories and Land Held for Resale	86,560	-	86,560
Prepaid Items	4	-	4
<i>Total Assets</i>	<u>825,537</u>	<u>-</u>	<u>825,537</u>
LIABILITIES			
<i>Liabilities</i>			
Accounts Payable	5,369	-	5,369
<i>Total Liabilities</i>	<u>5,369</u>	<u>-</u>	<u>5,369</u>
FUND BALANCE			
Unassigned	820,168	(820,168)	-
<i>Total Fund Balance</i>	<u>820,168</u>	<u>(820,168)</u>	<u>-</u>
<i>Total Liabilities & Fund Balance</i>	<u>\$ 825,537</u>		
NET POSITION			
Unrestricted		<u>\$ 820,168</u>	<u>\$ 820,168</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 28, 2015

	<u>DDA Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures / Expenses			
Community & Economic Development	\$ 350,027	\$ -	\$ 350,027
<i>Total Expenditures / Expenses</i>	<u>350,027</u>	<u>-</u>	<u>350,027</u>
 Program Revenue			
Charges for Services	951	-	951
<i>Total Program Revenue</i>	<u>951</u>	<u>-</u>	<u>951</u>
 General Revenue			
Property Taxes	182,505	-	182,505
Interest Income	835	-	835
<i>Total General Revenue</i>	<u>183,340</u>	<u>-</u>	<u>183,340</u>
 <i>Net Change in Fund Balance / Net Position</i>	(165,736)		(165,736)
Beginning of Year Fund Balance / Net Position	<u>985,904</u>		<u>985,904</u>
<i>End of Year Fund Balance / Net Position</i>	<u>\$ 820,168</u>		<u>\$ 820,168</u>

August 31, 2015

To the Council of the
Village of Kalkaska, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Kalkaska (the "Village") as of and for the year ended February 28, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 5, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended February 28, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences and the related pay rates as of February 28, 2015.

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 31, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the budgetary comparison schedules, the schedules of funding progress, and management's discussion and analysis, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

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

Restriction on Use

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

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI

Village of Kalkaska

Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the February 28, 2015 Audit

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

GASB 68 – Accounting and Financial Reporting for Pensions

Effective 6/15/15 (your FY 2/28/2016)

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

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

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

Village of Kalkaska

Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the February 28, 2015 Audit

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

GASB 69 – Government Combinations and Disposals of Government Operations

Effective 12/15/14 (your FY 2/28/2015)

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

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

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date

Effective with the implementation of GASB 68

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

2 CFR 200 – Uniform Guidance for Federal Awards

Cost Principles Effective 12/26/14 (your FY 2/28/2015); Single Audit Requirements Effective 12/26/14 (your FY 2/28/2016)

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

Village of Kalkaska

Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the February 28, 2015 Audit

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

**VILLAGE OF KALKASKA, MICHIGAN
SINGLE AUDIT ACT COMPLIANCE
YEAR ENDED FEBRUARY 28, 2015**

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INDEPENDENT AUDITOR'S REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

To the Council of the
Village of Kalkaska, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, Michigan ("the Village"), as of and for the year ended February 28, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements. We issued our report dated August 31, 2015, which contained an unmodified opinion on the basic financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Gabridge & Company, PLC
Grand Rapids, MI
August 31, 2015

**Village of Kalkaska
Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2015**

<u>Federal Agency / Program Title</u>	<u>CFDA Number</u>	<u>Passed Through</u>	<u>Pass-through / Grantor Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development				
Downtown Improvement Grant - Downtown Streetscape Project	14.228	MEDC	MSC 213023-DIG	<u>\$ 696,051</u>
Total Expenditures of Federal Awards				<u>\$ 696,051</u>

See notes to the schedule of expenditures of federal awards

Village of Kalkaska

Notes to the Schedule of Expenditures of Federal Awards

NOTE A – BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Village of Kalkaska (the “Village”) under programs of the federal government for the year ended February 28, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the Village, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Village.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

NOTE C – PASS-THROUGH AGENCIES

The Village receives certain federal grant as sub awards from non-federal entities. During the year ended February 28, 2015, the Village received \$696,051 from the Michigan Economic Development Corporation, which was abbreviated as MEDC on the Schedule.

NOTE D – RECONCILIATION TO FINANCIAL STATEMENTS

A reconciliation of the amounts presented in the Schedule to the amounts presented in the financial statements is as follows:

Intergovernmental revenue reported in the financial statements	
Governmental funds:	\$ 1,241,881
Less state and local revenues:	<u>545,830</u>
Total expenditures of federal awards:	<u>\$ 696,051</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 28, 2015, 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, 2015.

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, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

To the Council of the
Village of Kalkaska, Michigan

Report on Compliance for Each Major Federal Program

We have audited the Village of Kalkaska, Michigan's (the "Village") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Village's major federal programs for the year ended February 28, 2015. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Village's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Village's compliance.

Opinion on Each Major Federal Program

In our opinion, the Village complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended February 28, 2015.

Report on Internal Control Over Compliance

Management of the Village is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Village's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
August 31, 2015

**Village of Kaskaska
Schedule of Findings and Questioned Costs
For the Year Ended February 28, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)?	No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
Downtown Improvement Grant	14.228
Dollar threshold used to distinguish between Type A and B programs?	\$300,000
Auditee qualified as a low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS
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None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
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No matters were reported

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

No matters were reported