

Kalkaska County, Michigan

Year Ended
December 31,
2018

Financial
Statements

KALKASKA COUNTY, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

June 26, 2019

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kalkaska County, Michigan as of December 31, 2018, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Note 18, the County implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. Accordingly, beginning net position of the governmental activities was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2019, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Rehmann Lobarr LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

As management of Kalkaska County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12,452,374 (net position). Of this amount, \$2,905,287 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors. The County's total net position increased by \$546,027.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$6,192,364, an increase of \$260,538 in comparison with the prior year. Approximately 26.8 percent of total governmental fund balance or \$1,660,001 is unassigned fund balance.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$1,660,001 or 25.3 percent of total General Fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

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

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

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

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

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

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

Proprietary Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the Delinquent Tax funds, as well as, Sportsplex and Inmate Commissary activities. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County had no internal service funds at December 31, 2018.

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

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

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

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

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

Government-wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,452,374 at the close of the most recent fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 8,820,563	\$ 8,833,669	\$ 6,682,185	\$ 6,455,501	\$15,502,748	\$15,289,170
Capital assets, net	3,593,494	3,154,899	4,108,472	4,264,261	7,701,966	7,419,160
Total assets	12,414,057	11,988,568	10,790,657	10,719,762	23,204,714	22,708,330
Deferred outflows of resources	1,741,175	896,195	17,263	27,717	1,758,438	923,912
Long-term debt	207,355	194,662	975,000	1,470,000	1,182,355	1,664,662
Other liabilities	8,735,124	6,005,672	140,908	216,825	8,876,032	6,222,497
Total liabilities	8,942,479	6,200,334	1,115,908	1,686,825	10,058,387	7,887,159
Deferred inflows of resources	1,681,796	1,853,361	770,595	760,450	2,452,391	2,613,811
Net position:						
Net investment in capital assets	3,593,494	3,154,899	3,133,472	2,794,261	6,726,966	5,949,160
Restricted	2,820,121	2,970,319	-	-	2,820,121	2,970,319
Unrestricted (deficit)	(2,882,658)	(1,294,150)	5,787,945	5,505,943	2,905,287	4,211,793
Total net position	\$ 3,530,957	\$ 4,831,068	\$ 8,921,417	\$ 8,300,204	\$12,452,374	\$13,131,272

A portion of the County's total net position, \$6,726,966 (54.0 percent), reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position of \$2,820,121 (22.7 percent) represents resources that are subject to external restrictions on how they may be used. The County may use the remaining balance of unrestricted net position of \$2,905,287 (23.3 percent) to meet its ongoing obligations to citizens and creditors.

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

At the end of the current fiscal year, the County is able to report positive balances, both for the government as a whole, and for its separate governmental and business-type activities. It should be noted however, that the unrestricted portion of governmental activities ended in a deficit as of December 31, 2018. The main reason for this deficit is the reporting of the net pension liability and related deferred items as well as the net OPEB liability.

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program revenues:						
Charges for services	\$ 2,836,300	\$ 3,011,429	\$ 651,984	\$ 708,798	\$ 3,488,284	\$ 3,720,227
Operating grants	1,134,419	1,095,305	17,524	854	1,151,943	1,096,159
Capital grants	22,489	13,357	-	-	22,489	13,357
General revenues:						
Property taxes	5,948,267	5,717,549	754,250	732,914	6,702,517	6,450,463
Convention facility tax	66,016	63,432	-	-	66,016	63,432
State revenue sharing	356,411	356,278	-	-	356,411	356,278
Unrestricted investment earnings	45,861	32,066	22,572	17,044	68,433	49,110
Other revenue	170,520	230,178	-	-	170,520	230,178
Total revenues	10,580,283	10,519,594	1,446,330	1,459,610	12,026,613	11,979,204
Expenses:						
Legislative	280,578	250,668	-	-	280,578	250,668
Judicial	1,567,520	1,572,540	-	-	1,567,520	1,572,540
General government	1,589,910	1,703,262	-	-	1,589,910	1,703,262
Public safety	4,209,133	4,217,027	-	-	4,209,133	4,217,027
Public works	263,460	119,001	-	-	263,460	119,001
Health & welfare	1,722,948	1,606,368	-	-	1,722,948	1,606,368
Community & economic development	396,561	375,500	-	-	396,561	375,500
Recreation & culture	635,775	659,105	-	-	635,775	659,105
Tax collection	-	-	100,711	82,731	100,711	82,731
Sportsplex	-	-	713,990	876,271	713,990	876,271
Total expenses	10,665,885	10,503,471	814,701	959,002	11,480,586	11,462,473
Change in net position before transfers						
	(85,602)	16,123	631,629	500,608	546,027	516,731
Transfers						
	10,416	10,416	(10,416)	(10,416)	-	-
Change in net position						
	(75,186)	26,539	621,213	490,192	546,027	516,731
Net position:						
Beginning of year	4,831,068	4,804,529	8,300,204	7,810,012	13,131,272	12,614,541
Restatement for GASB 75	(1,224,925)	-	-	-	(1,224,925)	-
End of year	\$ 3,530,957	\$ 4,831,068	\$ 8,921,417	\$ 8,300,204	\$12,452,374	\$13,131,272

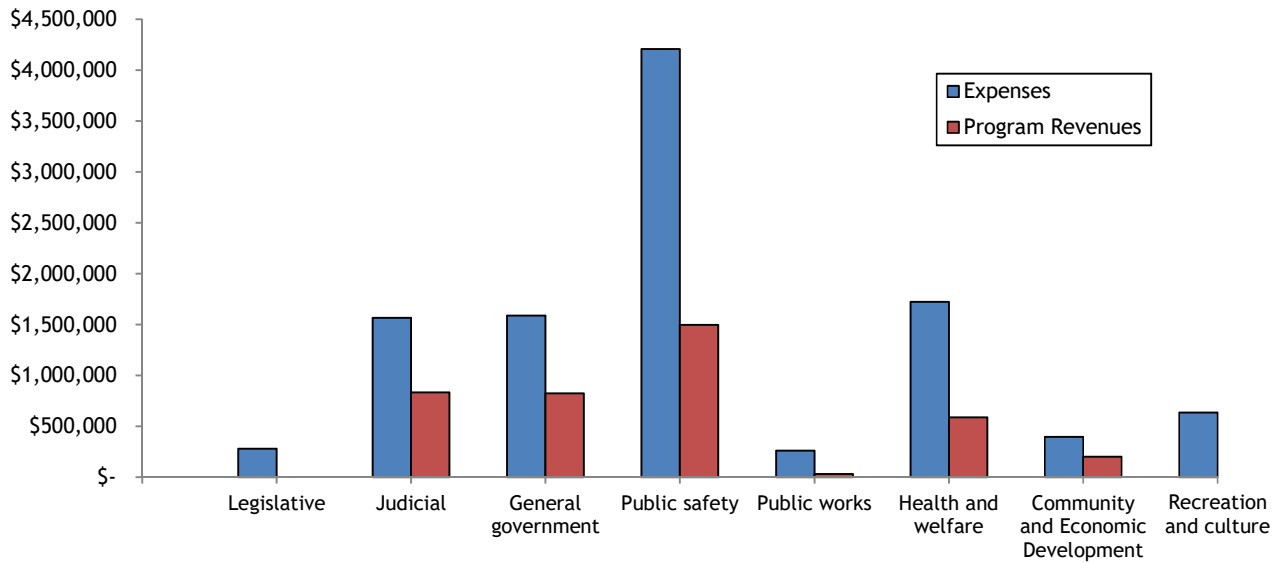
KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

The County's net position increased by \$546,027 during the current fiscal year. Governmental activities reported a decrease in net position of \$75,186, while business-type activities reported an increase of \$621,213.

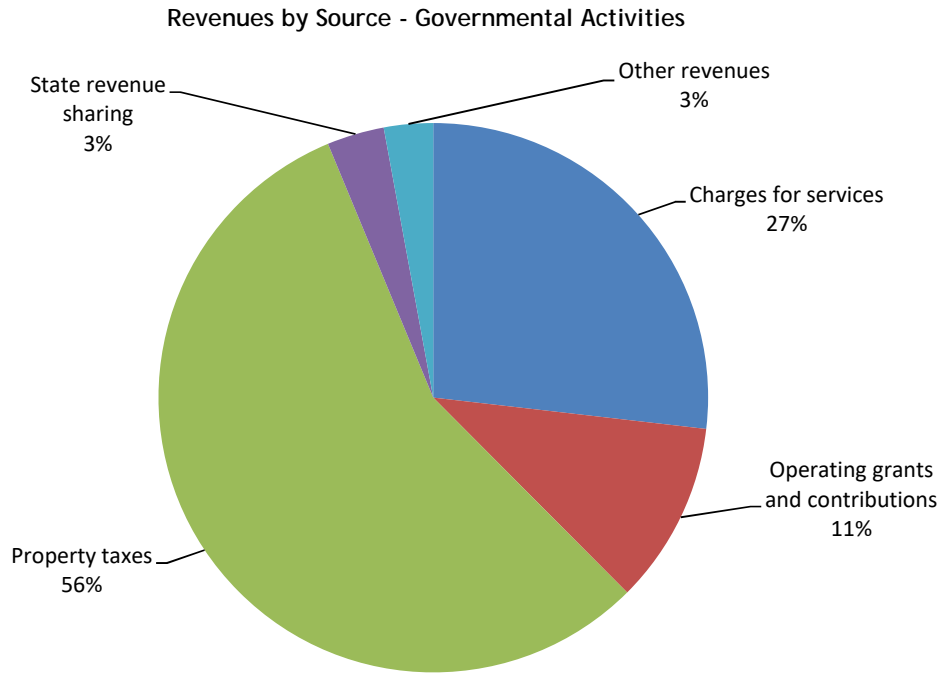
Governmental Activities. Governmental activities decreased the County's net position by \$75,186 compared to an increase in the prior year of \$26,539, mostly due to an increase in expenses related to the public works function. Public works expenses increased by \$144,459, or 121.4% from the prior year. Although the total amount expended on public works at the fund level was substantially the same, the prior year expenditures included \$143,068 of capital expenditures that were reported as capital asset additions for the governmental activities, rather than as expense.

Expenses and Program Revenues - Governmental Activities

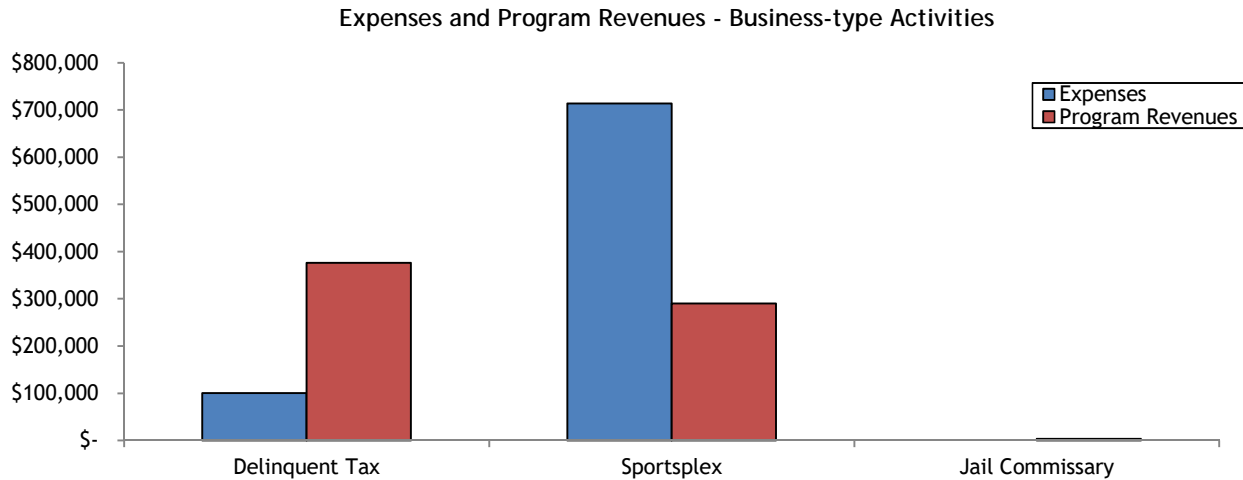


KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis



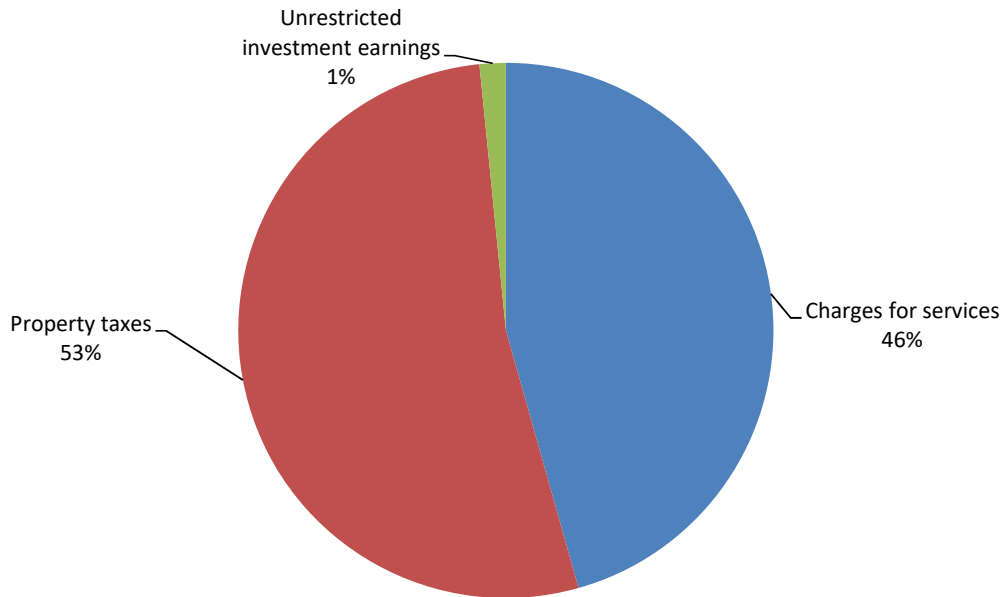
Business-type Activities. Business-type activities increased the County’s net position by \$621,213. This increase is primarily due to receipt of interest and penalties on delinquent taxes. Another contributing factor was a decrease in the cost of the sportsplex due the closure of the swimming pool side of the Kaliseum.



KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

Revenues by Source - Business-type Activities



Financial Analysis of the County's Funds

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$6,192,364, an increase of \$260,538 in comparison with the prior year. Of this amount, 26.8 percent (\$1,660,001) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it is classified as one of the following: A) nonspendable (in nonspendable form) (\$216,871); B) restricted for use per various external agreements (\$2,059,119); C) is committed through formal action of the County Board (\$1,628,369); or D) is assigned for specific purposes through informal action of the County Board (\$628,004).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,660,001 while total fund balance amounted to \$3,054,453. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 25.3 percent of total General Fund expenditures, while total fund balance represents 46.5 percent of that same amount.

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

The fund balance of the County's General Fund increased by \$352,390 during the current fiscal year compared to a decrease in the prior year of \$15,325. The main cause of this change is a decrease in transfers out of \$215,810 over the prior year. Transfers of \$332,007 were made from the General Fund to the Child Care Fund during the prior year. These transfers were necessary due to rising child care costs and to eliminate a prior year deficit in the Child Care Fund.

Fund balance for the Housing Fund increased by \$14,687 mostly due to collections from previously deferred Community Development Block Grant loans.

Fund balance for the Commission on Aging Fund decreased by \$445,441 as the remaining costs were incurred related to the renovation of the Commissions building. That renovation was completed during 2018.

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

Unrestricted net position of the proprietary funds at December 31, 2018 was \$5,787,945, with the Delinquent Tax and Sportsplex Fund reporting unrestricted net position of \$5,768,144 and a deficit of \$7,796, respectively. The net position of the Delinquent Tax and Sportsplex Funds increased \$298,039 and \$319,667 respectively. Delinquent tax funds collect interest and penalties on taxes not paid. These fees are over and above the costs to collect such taxes. The Sportsplex operates on both a tax millage and user fees. Repair and maintenance costs are currently minimal, but the County strives to set aside funds for future needs. The Jail Commissary Fund provided \$3,507 in positive activity and ended with net position of \$27,597.

General Fund Budgetary Highlights

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

- General Fund revenues were \$157,294 or 2.3 percent more than the final amended budget.
- Actual expenditures for the year were \$483,639 or 6.9 percent less than the final amended budget.
- The amended budget for revenues and expenditures increased from the originally adopted budget by 0.8 and 3.8 percent, respectively. The budget is amended throughout the year. The original budget is based on conservative projections and once grants are officially awarded it becomes necessary to amend both revenues and expenditures. Expenditures are also amended as necessary for unexpected costs. Most significantly has been the telephone costs as the County negotiates with a service provider.

Capital Asset and Debt Administration

Capital Assets. The County's capital assets for its governmental and business-type activities as of December 31, 2018 amounted to \$7,701,966 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements and machinery and equipment. The total increase of \$282,806 in the County's investment in capital assets for the current fiscal year was 3.8 percent. The increase attributable to the governmental activities (5.9 percent) was offset by a small decrease in business-type activities.

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

Major capital asset events during the current fiscal year included:

- Costs for building improvements related to the Commission on Aging building were incurred during the year in the amount of \$345,997, as that project was completed.
- The previous year costs for the Library building renovation remain in construction in progress as that project remains open.
- Several vehicles were purchased during the year.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 452,521	\$ 452,521	\$ -	\$ -	\$ 452,521	\$ 452,521
Construction in progress	73,701	914,443	-	-	73,701	914,443
Buildings	2,466,900	1,203,637	4,022,194	4,156,683	6,489,094	5,360,320
Land improvements	64,131	72,720	-	-	64,131	72,720
Machinery and equipment	536,241	511,578	86,278	107,578	622,519	619,156
Total capital assets, net	\$ 3,593,494	\$ 3,154,899	\$ 4,108,472	\$ 4,264,261	\$ 7,701,966	\$ 7,419,160

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

Long-term Debt. At the end of the current fiscal year, the County had total long-term debt outstanding of \$1,182,355.

	Installment and Other Debt					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
2010 refunding bonds	\$ -	\$ -	\$ 975,000	\$ 1,470,000	\$ 975,000	\$ 1,470,000
Compensated absences	207,355	194,662	-	-	207,355	194,662
Total long-term debt	\$ 207,355	\$ 194,662	\$ 975,000	\$ 1,470,000	\$ 1,182,355	\$ 1,664,662

The County's total long-term debt decreased by \$482,307 (29.0 percent) during the current fiscal year. The net decrease was mainly attributable to annual principal payments.

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

Economic Factors and Next Year's Budget and Rates

- The County has been seeing an increase in building maintenance and recognizes the need to allocate future monies available for repairs and maintenance.
- The County has seen significant increases in required payments for retiree retirement and healthcare costs. The County has budgeted for the full impact of retirement payments as calculated by the state retirement system in efforts to reduce the unfunded liabilities.
- There has been a significant increase in child care costs for state ward foster children during the past few years.

The County considered these factors in preparing the County's budget for the 2019 fiscal year.

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

KALKASKA COUNTY, MICHIGAN

Statement of Net Position

December 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Assets				
Cash and cash equivalents	\$ 5,817,668	\$ 5,091,227	\$ 10,908,895	\$ 1,987,741
Investments	-	-	-	748,067
Receivables, net	2,786,024	1,587,988	4,374,012	1,792,222
Inventories	-	2,009	2,009	440,480
Prepays	216,871	961	217,832	82,620
Capital assets not being depreciated	526,222	-	526,222	5,271,973
Capital assets being depreciated, net	3,067,272	4,108,472	7,175,744	18,399,507
Total assets	12,414,057	10,790,657	23,204,714	28,722,610
Deferred outflows of resources				
Deferred pension amounts	1,709,101	17,263	1,726,364	465,152
Deferred OPEB amounts	32,074	-	32,074	-
Total deferred outflows of resources	1,741,175	17,263	1,758,438	465,152
Liabilities				
Payables and accrued liabilities	503,130	63,098	566,228	405,207
Unearned revenue	12,244	4,674	16,918	-
Long-term debt:				
Due within one year	41,471	490,000	531,471	318,226
Due in more than one year	165,884	485,000	650,884	1,013,206
Net pension liability (due in more than one year)	7,240,480	73,136	7,313,616	6,750,648
Net OPEB liability (due in more than one year)	979,270	-	979,270	1,964,775
Total liabilities	8,942,479	1,115,908	10,058,387	10,452,062
Deferred inflows of resources				
Property taxes levied for a subsequent period	1,370,649	768,003	2,138,652	735,500
Deferred pension amounts	256,566	2,592	259,158	-
Deferred OPEB amounts	54,581	-	54,581	-
Total deferred inflows of resources	1,681,796	770,595	2,452,391	735,500
Net position				
Net investment in capital assets	3,593,494	3,133,472	6,726,966	22,385,614
Restricted for:				
Public safety	1,433,470	-	1,433,470	-
Health and welfare	94,367	-	94,367	-
Community and economic development	796,752	-	796,752	-
Recreation and culture	52,268	-	52,268	-
Child support enforcement	101,262	-	101,262	-
Other state mandated programs	342,002	-	342,002	-
Unrestricted (deficit)	(2,882,658)	5,787,945	2,905,287	(4,385,414)
Total net position	\$ 3,530,957	\$ 8,921,417	\$ 12,452,374	\$ 18,000,200

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

KALKASKA COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2018

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 280,578	\$ -	\$ -	\$ -	\$ (280,578)
Judicial	1,567,520	529,700	303,621	-	(734,199)
General government	1,589,910	495,154	328,744	-	(766,012)
Public safety	4,209,133	1,148,757	348,021	-	(2,712,355)
Public works	263,460	26,561	4,865	-	(232,034)
Health and welfare	1,722,948	461,365	127,838	-	(1,133,745)
Community and economic development	396,561	15,858	-	-	(380,703)
Recreation and culture	635,775	158,905	21,330	22,489	(433,051)
Total governmental activities	10,665,885	2,836,300	1,134,419	22,489	(6,672,677)
Business-type activities:					
Tax collection	100,711	375,875	-	-	275,164
Sportsplex	713,990	272,602	17,524	-	(423,864)
Commissary	-	3,507	-	-	3,507
Total business-type activities	814,701	651,984	17,524	-	(145,193)
Total primary government	\$ 11,480,586	\$ 3,488,284	\$ 1,151,943	\$ 22,489	\$ (6,817,870)
Component unit					
Road Commission	\$ 6,979,544	\$ 126,089	\$ 4,788,582	\$ 2,206,722	\$ 141,849

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KALKASKA COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Changes in net position				
Net revenue (expense)	\$ (6,672,677)	\$ (145,193)	\$ (6,817,870)	\$ 141,849
General revenues:				
Property taxes	5,948,267	754,250	6,702,517	725,200
Convention facilities tax	66,016	-	66,016	-
State revenue sharing	356,411	-	356,411	-
Unrestricted investment earnings	45,861	22,572	68,433	-
Gain on sale of capital assets	-	-	-	195,574
Other revenue	170,520	-	170,520	-
Transfers - internal activities	10,416	(10,416)	-	-
Total general revenues and transfers	6,597,491	766,406	7,363,897	920,774
Change in net position	(75,186)	621,213	546,027	1,062,623
Net position beginning of year, as restated	3,606,143	8,300,204	11,906,347	16,937,577
Net position, end of year	\$ 3,530,957	\$ 8,921,417	\$ 12,452,374	\$ 18,000,200

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

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KALKASKA COUNTY, MICHIGAN

Balance Sheet Governmental Funds December 31, 2018

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,638,399	\$ 54,576	\$ 114,291	\$ 3,010,402	\$ 5,817,668
Receivables:					
Accounts	-	-	2,174	111,582	113,756
Taxes	358,543	-	737,901	552,705	1,649,149
Loans	-	742,176	-	-	742,176
Due from other governments	154,918	-	2,535	123,490	280,943
Prepays	198,045	-	6,298	12,528	216,871
Total assets	\$ 3,349,905	\$ 796,752	\$ 863,199	\$ 3,810,707	\$ 8,820,563
Liabilities					
Accounts payable	\$ 196,957	\$ -	\$ 8,232	\$ 103,884	\$ 309,073
Accrued liabilities	67,865	-	8,316	16,104	92,285
Due to other governments	18,386	-	1,960	81,426	101,772
Unearned revenue	12,244	-	-	-	12,244
Total liabilities	295,452	-	18,508	201,414	515,374
Deferred inflows of resources					
Taxes levied for a subsequent period	-	-	783,676	586,973	1,370,649
Unavailable revenue - loans receivable	-	742,176	-	-	742,176
Total deferred inflows of resources	-	742,176	783,676	586,973	2,112,825
Fund balances					
Nonspendable	198,045	-	6,298	12,528	216,871
Restricted	14,339	54,576	54,717	1,935,487	2,059,119
Committed	554,064	-	-	1,074,305	1,628,369
Assigned	628,004	-	-	-	628,004
Unassigned	1,660,001	-	-	-	1,660,001
Total fund balances	3,054,453	54,576	61,015	3,022,320	6,192,364
Total liabilities, deferred inflows of resources and fund balances	\$ 3,349,905	\$ 796,752	\$ 863,199	\$ 3,810,707	\$ 8,820,563

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

KALKASKA COUNTY, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2018

Fund balances - total governmental funds \$ 6,192,364

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

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

Capital assets not being depreciated	526,222
Capital assets being depreciated, net	3,067,272

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

Deferred loans receivable	742,176
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Compensated absences	(207,355)
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Certain pension and other postemployment benefits (OPEB) related amounts, such as the net pension and OPEB liabilities and associated deferred amounts, are not due and payable in the current period, or do not represent current financial resources, and therefore are not reported in the funds.

Net pension liability	(7,240,480)
Deferred outflows related to the net pension liability	1,709,101
Deferred inflows related to the net pension liability	(256,566)
Net OPEB liability	(979,270)
Deferred outflows related to the net OPEB liability	32,074
Deferred inflows related to the net OPEB liability	(54,581)

Net position of governmental activities \$ 3,530,957

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balances

Governmental Funds

For the Year Ended December 31, 2018

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 4,643,058	\$ -	\$ 752,861	\$ 552,348	\$ 5,948,267
Licenses and permits	35,889	-	-	321,564	357,453
Intergovernmental:					
Federal	118,838	-	686	178,566	298,090
State	868,587	-	17,887	336,107	1,222,581
Local	-	-	-	18,000	18,000
Charges for services	1,130,271	-	428,579	609,502	2,168,352
Fines and forfeitures	-	-	-	124,584	124,584
Interest	19,102	161	4,136	19,557	42,956
Rents	136,431	-	-	52,385	188,816
Donations	-	-	-	22,489	22,489
Other	77,965	15,239	-	95,491	188,695
Total revenues	7,030,141	15,400	1,204,149	2,330,593	10,580,283
Expenditures					
Current:					
Legislative	249,617	-	-	-	249,617
Judicial	1,212,029	-	-	231,007	1,443,036
General government	1,525,186	-	-	-	1,525,186
Public safety	2,726,862	-	-	906,018	3,632,880
Public works	95,678	-	-	113,139	208,817
Health and welfare	239,306	-	1,649,590	273,023	2,161,919
Community and economic development	344,356	713	-	-	345,069
Recreation and culture	-	-	-	574,727	574,727
Other functions	176,910	-	-	-	176,910
Capital outlay	-	-	-	12,000	12,000
Total expenditures	6,569,944	713	1,649,590	2,109,914	10,330,161
Revenues over (under) expenditures	460,197	14,687	(445,441)	220,679	250,122
Other financing sources (uses)					
Transfers in	90,923	-	-	211,312	302,235
Transfers out	(198,730)	-	-	(93,089)	(291,819)
Total other financing sources (uses)	(107,807)	-	-	118,223	10,416
Net change in fund balances	352,390	14,687	(445,441)	338,902	260,538
Fund balances, beginning of year	2,702,063	39,889	506,456	2,683,418	5,931,826
Fund balances, end of year	\$ 3,054,453	\$ 54,576	\$ 61,015	\$ 3,022,320	\$ 6,192,364

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

KALKASKA COUNTY, MICHIGAN

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2018

Net change in fund balances - total governmental funds \$ 260,538

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

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

Purchases of capital assets	719,736
Depreciation expense	(281,141)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following year.

Change in deferred loans receivable	(15,075)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in the accrual for compensated absences	(12,693)
Change in the net pension liability and related deferred amounts	(724,464)
Change in the net OPEB liability and related deferred amounts	(22,087)

Change in net position of governmental activities	<u>\$ (75,186)</u>
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The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund

For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues				
Taxes	\$ 3,628,082	\$ 3,628,082	\$ 4,643,058	\$ 1,014,977
Licenses and permits	33,250	35,250	35,889	639
Intergovernmental:				
Federal	130,271	131,283	118,838	(12,445)
State	1,665,775	1,676,907	868,587	(808,320)
Local	1,500	1,500	-	(1,500)
Charges for services	1,178,777	1,210,821	1,130,271	(80,550)
Interest	500	500	19,102	18,602
Rents	135,736	135,736	136,431	695
Other	44,601	52,768	77,965	25,197
Total revenues	6,818,491	6,872,847	7,030,141	157,294
Expenditures				
Current:				
Legislative	232,260	244,960	249,617	4,657
Judicial	1,285,243	1,299,645	1,212,029	(87,616)
General government	1,519,338	1,692,984	1,525,186	(167,798)
Public safety	2,695,842	2,812,184	2,726,862	(85,322)
Public works	149,820	115,895	95,678	(20,217)
Health and welfare	253,041	257,964	239,306	(18,658)
Community and economic development	355,939	356,789	344,356	(12,433)
Other functions	301,862	273,162	176,910	(96,252)
Total expenditures	6,793,345	7,053,583	6,569,944	(483,639)
Revenues over (under) expenditures	25,146	(180,736)	460,197	640,933
Other financing sources (uses)				
Transfers in	23,916	52,824	90,923	38,099
Transfers out	(282,276)	(213,059)	(198,730)	14,329
Total other financing sources (uses)	(258,360)	(160,235)	(107,807)	52,428
Net change in fund balance	(233,214)	(340,971)	352,390	693,361
Fund balance, beginning of year	2,702,063	2,702,063	2,702,063	-
Fund balance, end of year	\$ 2,468,849	\$ 2,361,092	\$ 3,054,453	\$ 693,361

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual - Housing Special Revenue Fund For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues				
Interest	\$ 10	\$ 10	\$ 161	\$ 151
Other	4,000	4,000	15,239	11,239
Total revenues	4,010	4,010	15,400	11,390
Expenditures				
Current:				
Community and economic development	4,010	4,310	713	(3,597)
Net change in fund balance	-	(300)	14,687	14,987
Fund balance, beginning of year	39,889	39,889	39,889	-
Fund balance, end of year	\$ 39,889	\$ 39,589	\$ 54,576	\$ 14,987

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual - Commission on Aging Special Revenue Fund For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues				
Taxes	\$ 759,394	\$ 759,394	\$ 752,861	\$ (6,533)
Intergovernmental:				
Federal	2,000	2,000	686	(1,314)
State	-	4,557	17,887	13,330
Charges for services	435,000	442,814	428,579	(14,235)
Interest	1,000	1,000	4,136	3,136
Total revenues	1,197,394	1,209,765	1,204,149	(5,616)
Expenditures				
Current:				
Health and welfare	1,242,422	1,711,222	1,649,590	(61,632)
Net change in fund balance	(45,028)	(501,457)	(445,441)	56,016
Fund balance, beginning of year	506,456	506,456	506,456	-
Fund balance, end of year	\$ 461,428	\$ 4,999	\$ 61,015	\$ 56,016

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

KALKASKA COUNTY, MICHIGAN

Statement of Net Position
 Proprietary Funds
 December 31, 2018

	Business-type Activities - Enterprise Funds			
	Delinquent Tax	Sportsplex	Nonmajor Fund - Commissary	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,571,009	\$ 492,621	\$ 27,597	\$ 5,091,227
Receivables:				
Taxes	723,080	716,525	-	1,439,605
Due from other governments	23,579	-	-	23,579
Interest and administrative fees	124,804	-	-	124,804
Inventories	-	2,009	-	2,009
Prepays	-	961	-	961
Total current assets	<u>5,442,472</u>	<u>1,212,116</u>	<u>27,597</u>	<u>6,682,185</u>
Noncurrent assets:				
Advances to other funds	351,484	-	-	351,484
Capital assets being depreciated, net	-	4,108,472	-	4,108,472
Total noncurrent assets	<u>351,484</u>	<u>4,108,472</u>	<u>-</u>	<u>4,459,956</u>
Total assets	<u>5,793,956</u>	<u>5,320,588</u>	<u>27,597</u>	<u>11,142,141</u>
Deferred outflows of resources				
Deferred pension amounts	-	17,263	-	17,263
Liabilities				
Current liabilities:				
Accounts payable	1,600	24,558	-	26,158
Accrued liabilities	-	3,614	-	3,614
Due to other governments	24,212	580	-	24,792
Accrued interest payable	-	8,534	-	8,534
Long-term debt, current portion	-	490,000	-	490,000
Unearned revenue	-	4,674	-	4,674
Total current liabilities	<u>25,812</u>	<u>531,960</u>	<u>-</u>	<u>557,772</u>
Noncurrent liabilities:				
Advances from other funds	-	351,484	-	351,484
Long-term debt, net of current portion	-	485,000	-	485,000
Net pension liability	-	73,136	-	73,136
Total noncurrent liabilities	<u>-</u>	<u>909,620</u>	<u>-</u>	<u>909,620</u>
Total liabilities	<u>25,812</u>	<u>1,441,580</u>	<u>-</u>	<u>1,467,392</u>
Deferred inflows of resources				
Taxes levied for a subsequent period	-	768,003	-	768,003
Deferred pension amounts	-	2,592	-	2,592
Total deferred inflows of resources	<u>-</u>	<u>770,595</u>	<u>-</u>	<u>770,595</u>
Net position				
Net investment in capital assets	-	3,133,472	-	3,133,472
Unrestricted (deficit)	5,768,144	(7,796)	27,597	5,787,945
Total net position	<u>\$ 5,768,144</u>	<u>\$ 3,125,676</u>	<u>\$ 27,597</u>	<u>\$ 8,921,417</u>

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

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position Proprietary Funds For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds			
	Delinquent Tax	Sportsplex	Nonmajor Fund - Commissary	Total
Operating revenues				
Charges for services	\$ 315,761	\$ 272,602	\$ 3,507	\$ 591,870
Interest and penalties	60,114	-	-	60,114
Total operating revenues	375,875	272,602	3,507	651,984
Operating expenses				
Personnel services	-	145,382	-	145,382
Depreciation	-	155,789	-	155,789
Other operating expenses	100,711	374,721	-	475,432
Total operating expenses	100,711	675,892	-	776,603
Operating income (loss)	275,164	(403,290)	3,507	(124,619)
Nonoperating revenues (expenses)				
Property taxes	13,269	740,981	-	754,250
State grant revenue	-	17,524	-	17,524
Interest revenue	20,022	2,550	-	22,572
Interest expense	-	(38,098)	-	(38,098)
Total nonoperating revenues (expenses)	33,291	722,957	-	756,248
Income before transfers	308,455	319,667	3,507	631,629
Transfers				
Transfers out	(10,416)	-	-	(10,416)
Change in net position	298,039	319,667	3,507	621,213
Net position, beginning of year	5,470,105	2,806,009	24,090	8,300,204
Net position, end of year	\$ 5,768,144	\$ 3,125,676	\$ 27,597	\$ 8,921,417

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

KALKASKA COUNTY, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds			
	Delinquent Tax	Sportsplex	Nonmajor Fund - Commissary	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 2,357,246	\$ 274,098	\$ 3,507	\$ 2,634,851
Payments to vendors	(110,525)	(366,952)	-	(477,477)
Payments for personnel services	-	(243,255)	-	(243,255)
Delinquent taxes purchased	(1,909,712)	-	-	(1,909,712)
Net cash provided by (used in) operating activities	337,009	(336,109)	3,507	4,407
Cash flows from noncapital financing activities				
Local tax levy received	13,269	778,697	-	791,966
State grants received	-	17,524	-	17,524
Payments to other funds	(10,416)	-	-	(10,416)
Net cash provided by noncapital financing activities	2,853	796,221	-	799,074
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	(495,000)	-	(495,000)
Interest paid on long-term debt	-	(41,810)	-	(41,810)
Net cash used in capital and related financing activities	-	(536,810)	-	(536,810)
Cash flows from investing activities				
Interest received	20,022	2,550	-	22,572
Net increase (decrease) in cash and cash equivalents	359,884	(74,148)	3,507	289,243
Cash and cash equivalents, beginning of year	4,211,125	566,769	24,090	4,801,984
Cash and cash equivalents, end of year	\$ 4,571,009	\$ 492,621	\$ 27,597	\$ 5,091,227
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 275,164	\$ (403,290)	\$ 3,507	\$ (124,619)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	-	155,789	-	155,789
Change in operating assets, deferred outflows/inflows of resources and liabilities that provided (used) cash:				
Taxes receivable	51,662	-	-	51,662
Interest receivable	(4,215)	-	-	(4,215)
Prepays	-	1,192	-	1,192
Deferred outflows - pension	-	10,454	-	10,454
Accounts payable	(9,814)	5,997	-	(3,817)
Due to other governments	24,212	580	-	24,792
Accrued liabilities	-	265	-	265
Unearned revenue	-	1,496	-	1,496
Net pension liability	-	(94,941)	-	(94,941)
Deferred inflows - pension	-	(13,651)	-	(13,651)
Net cash provided by (used in) operating activities	\$ 337,009	\$ (336,109)	\$ 3,507	\$ 4,407

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

KALKASKA COUNTY, MICHIGAN

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2018

	Agency Funds	Other Post- employment Benefits Trust
Assets		
Cash and cash equivalents	\$ 190,411	\$ -
Investments:		
Money market funds	-	84
Equity mutual funds	-	219,578
Certificates of deposit	-	27,980
Prepays	-	11,772
Total assets	\$ 190,411	259,414
Liabilities		
Negative equity in pooled cash	\$ -	\$ 36,576
Undistributed collections	139,562	-
Other liabilities	50,849	-
Total liabilities	\$ 190,411	36,576
Net position restricted for		
Other postemployment benefits		\$ 222,838

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

KALKASKA COUNTY, MICHIGAN

Statement of Changes in Fiduciary Net Position

Other Postemployment Benefits Trust
For the Year Ended December 31, 2018

Additions	
Employer contributions	\$ 38,601
Retiree contributions	<u>91,829</u>
Total additions	<u>130,430</u>
Deductions	
Benefit payments	157,862
Investment loss	<u>4,546</u>
Total deductions	<u>162,408</u>
Change in net position	(31,978)
Net position, beginning of year	<u>254,816</u>
Net position, end of year	<u><u>\$ 222,838</u></u>

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

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NOTES TO FINANCIAL STATEMENTS

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Blended Component Unit

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

Discretely Presented Component Unit

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Jointly Governed Organizations

North Country Community Mental Health (the "Community Mental Health") - The County, in conjunction with the counties of Otsego, Emmet, Charlevoix and Cheboygan, has created the Community Mental Health. The Board of the Community Mental Health is composed of 12 members from each of the boards of the participating governments. The funding formula for the Community Mental Health operations is in accordance with an agreement approved by all of the member counties and the local contribution was frozen, by statute, at the amount contributed in year 2002. Kalkaska County appropriated \$170,132 to the Community Mental Health for the year ended December 31, 2018.

46th Judicial Trial Court (the "Court") - The Court has responsibilities for Kalkaska, Crawford and Otsego counties. The funding formula is based upon the previous year's caseload. For the year ended December 31, 2018 the funding was 26%, 31%, and 43% for Crawford, Kalkaska and Otsego County, respectively. Each county is responsible for the court budget as it related to its own court expenses. The remaining expenses that are shared by Kalkaska, Crawford and Otsego counties are incurred by and paid by Crawford County with the two other counties appropriating funds based on the funding formula. Kalkaska County appropriated \$70,576 to the Court for the year ended December 31, 2018.

Government-wide and Fund Financial Statements

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

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The County reports the following major governmental funds:

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

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

The County reports the following major proprietary funds:

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

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

Additionally, the County reports the following fund types:

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

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

The *enterprise fund* accounts for those operations that are financed and operated in a manner similar to private business or where the County has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

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

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

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

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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

Cash and Cash Equivalents

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

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

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

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

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

Bankers' acceptances of United States banks.

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

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

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

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

Receivables and Payables

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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

Other Assets

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

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

Capital Assets

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

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

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

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

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County reports deferred outflows of resources for changes in expected and actual investments returns, assumptions, and benefits provided, related to the net pension and other postemployment benefit liabilities.

Compensated Absences

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

Long-term Obligations

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

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that are intended to finance future periods. In the government-wide and proprietary fund financial statements, the County also reports deferred inflows of resources for changes in expected and actual investments returns, assumptions, and benefits provided, related to the net pension and other postemployment benefit liabilities.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Fund Equity

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

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

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

Interfund Transactions

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

Pensions and Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Use of Estimates

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

2. BUDGETARY INFORMATION

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

1. During the month of July, budget worksheets, which list prior year expenditures and current partial-year expenditures, are sent to each department by the Contracted accountant. Each department prepares their budget and returns it to the County Clerk. There are several budget workshops with the Commissioners, the department heads and the contracted accountant to discuss any changes to the budgets as requested.
2. Public hearings are conducted at the County Building to obtain taxpayer comments.
3. Prior to December 31st, the budget is legally enacted on a line-item basis through passage of a resolution.
4. Budget amendments are made by the County Commission as the need arises during the year.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations lapse at year end.
7. The original budget was amended during the year in compliance with the County procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the final budgetary expenditures as amended by the County Commission.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

3. ACCOUNTABILITY AND COMPLIANCE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Despite the fact that the approved budgets of the County were adopted on the line-item level basis for all governmental funds, which is the legal level of control, reporting violations at this level is not considered practical. Thus violations are reported at the department (activity) level. During the year ended December 31, 2018, the County incurred expenditures which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
Legislative:			
County board	\$ 244,960	\$ 249,617	\$ 4,657
General government:			
Elections	38,929	51,259	12,330
Various accounts	35,232	36,124	892
Public safety:			
Township deputies	170,865	175,493	4,628
Community corrections	95,011	96,031	1,020
Domestic violence grant	17,516	21,711	4,195
DNR ORV grant	31,960	36,134	4,174
Bullet proof vest fund:			
Public safety	7,767	14,031	6,264
Log lake park fund:			
Recreation and culture	25,816	28,599	2,783
Reserve officers fund:			
Public safety	1,000	1,057	57
Animal control donation fund:			
Public safety	2,000	2,510	510
Sheriff department equipment donation fund:			
Public safety	493	10,541	10,048
Law library fund:			
Judicial	8,000	9,055	1,055
Inmate programs and services fund:			
Health and welfare	5,000	5,053	53
Child care fund:			
Health and welfare	169,025	267,360	98,335

Deficit Fund Net Position

At December 31, 2018 the County reported deficit unrestricted fund net position in the Sportsplex enterprise fund of \$7,796.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2018:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 10,908,895	\$ 1,987,741	\$ 12,896,636
Investments	-	748,067	748,067
Statement of Fiduciary Net Position			
Other postemployment benefit trust fund:			
Investments	247,642	-	247,642
Negative equity in pooled cash	(36,576)	-	(36,576)
Agency funds:			
Cash and cash equivalents	190,411	-	190,411
Total	\$ 11,310,372	\$ 2,735,808	\$ 14,046,180
Deposits and investments			
Primary Government			
Bank deposits:			
Checking and savings accounts (pooled)			\$ 8,068,451
Other checking and savings			195,366
Certificates of deposit:			
Due within one year			1,610,668
Due in one to five years			410,833
Investments			808,698
Other postemployment benefit trust fund:			
Checking and savings accounts (pooled) - negative equity			(36,576)
Cash and cash equivalents held in investment account			84
Certificates of deposit - due in one to five years			27,980
Investments			219,578
Cash on hand			5,290
Total Primary Government			11,310,372
Road Commission Component Unit			
Bank deposits:			
Checking and savings accounts			1,487,491
Certificates of deposit, due within one year			500,000
Cash on hand			250
Investments:			
Government securities			748,067
Total Road Commission Component Unit			2,735,808
Total deposits and investments			\$ 14,046,180

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, \$8,572,354 of the bank balance (excluding Road Commission) of \$10,690,144 was exposed to custodial credit risk because it was uninsured and uncollateralized. The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution with which it deposits County funds and assesses the level of risk of each institution; only those institutions with an acceptable level are used as depositories.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2018, none of the County's investments were exposed to custodial credit risk inasmuch as all investments are held in the name of the County.

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

S&P AAAm	\$	311,922
S&P Aaa (U.S Treasury Notes)		248,903
S&P A1 (Commercial Paper)		<u>247,873</u>
Total	\$	<u>808,698</u>

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Fair Value. The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. These levels are determined by the County's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary. The County had the following recurring fair value measurements as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	\$ -	\$ 248,903	\$ -	\$ 248,903
Commercial paper	-	247,873	-	247,873
	<u>\$ -</u>	<u>\$ 496,776</u>	<u>\$ -</u>	<u>496,776</u>
Investments carried at amortized cost:				
Government investment pool				<u>311,922</u>
				<u>\$ 808,698</u>

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

U.S. Treasury notes and commercial paper investments are classified as Level 2 of the fair value hierarchy as the investments are traded only in secondary markets.

Other Postemployment Benefits Trust Fund

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

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

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Following is a summary of other postemployment benefits trust investments as of December 31, 2018:

	Interest Rate	Maturity	Morningstar Rating	Market Value
Money market funds	0.04%	n/a	n/a	\$ 84
Equity mutual funds:				
High income	n/a	n/a	★	19,962
Balanced income	n/a	n/a	★★★★★	33,875
Real asset income	n/a	n/a	★★★	42,257
Short-term income	n/a	n/a	★★★	123,484
Certificates of deposit	0.40%	1/27/2021	n/a	<u>27,980</u>
				<u>\$ 247,642</u>

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

The amounts reported as money market funds in the statement of plan net position are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of the other postemployment benefits trust account as of December 31, 2018 was \$84, which was fully insured.

The amounts reported as certificates of deposit in the statement of plan net position are insured by the Federal Deposit Insurance Corporation for up to \$250,000 each. The carrying amount of the other postemployment benefits trust account as of December 31, 2018 was \$27,980, which was fully insured.

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

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	\$ 113,756	\$ -	\$ -
Taxes - current	1,649,149	716,525	689,716
Taxes - delinquent	-	723,080	-
Interest and administrative fees	-	124,804	-
Loans	742,176	-	-
Due from other governments	280,943	23,579	1,102,506
	<u>\$ 2,786,024</u>	<u>\$ 1,587,988</u>	<u>\$ 1,792,222</u>

Of the amount reported above for loans receivable in governmental activities, \$742,176 is not expected to be collected within one year.

6. PAYABLES AND ACCRUED LIABILITIES

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

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 309,073	\$ 26,158	\$ 150,626
Accrued liabilities	92,285	3,614	82,065
Accrued interest payable	-	8,534	-
Due to other governments	101,772	24,792	172,516
	<u>\$ 503,130</u>	<u>\$ 63,098</u>	<u>\$ 405,207</u>

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7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund advances as of December 31, 2018, was as follows:

	Advances to Other Funds	Advances from Other Funds
Delinquent tax fund	\$ 351,484	\$ -
Sportsplex fund	-	351,484
	<u>\$ 351,484</u>	<u>\$ 351,484</u>

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

For the year ended December 31, 2018, interfund transfers consisted of the following:

Transfers Out	Transfers in		
	General fund	Nonmajor governmental funds	Totals
General fund	\$ -	\$ 198,730	\$ 198,730
Nonmajor governmental funds	80,507	12,582	93,089
Delinquent tax fund	10,416	-	10,416
	<u>\$ 90,923</u>	<u>\$ 211,312</u>	<u>\$ 302,235</u>

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

KALKASKA COUNTY, MICHIGAN

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8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 452,521	\$ -	\$ -	\$ -	\$ 452,521
Construction in progress	914,443	572,566	-	(1,413,308)	73,701
	<u>1,366,964</u>	<u>572,566</u>	<u>-</u>	<u>(1,413,308)</u>	<u>526,222</u>
Capital assets, being depreciated:					
Buildings and improvements	6,342,673	63,740	(18,022)	1,332,599	7,720,990
Land improvements	441,877	-	-	-	441,877
Machinery and equipment	2,763,824	83,430	-	80,709	2,927,963
	<u>9,548,374</u>	<u>147,170</u>	<u>(18,022)</u>	<u>1,413,308</u>	<u>11,090,830</u>
Less accumulated depreciation for:					
Buildings and improvements	(5,139,036)	(133,076)	18,022	-	(5,254,090)
Land improvements	(369,157)	(8,589)	-	-	(377,746)
Machinery and equipment	(2,252,246)	(139,476)	-	-	(2,391,722)
	<u>(7,760,439)</u>	<u>(281,141)</u>	<u>18,022</u>	<u>-</u>	<u>(8,023,558)</u>
Total capital assets being depreciated, net	<u>1,787,935</u>	<u>(133,971)</u>	<u>-</u>	<u>1,413,308</u>	<u>3,067,272</u>
Governmental activities capital assets, net	<u>\$ 3,154,899</u>	<u>\$ 438,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,593,494</u>

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 6,596,934	\$ -	\$ -	\$ -	\$ 6,596,934
Furniture, fixtures & equipment	273,966	-	-	-	273,966
	<u>6,870,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,870,900</u>
Less accumulated depreciation for:					
Buildings and improvements	(2,440,251)	(134,489)	-	-	(2,574,740)
Furniture, fixtures & equipment	(166,388)	(21,300)	-	-	(187,688)
	<u>(2,606,639)</u>	<u>(155,789)</u>	<u>-</u>	<u>-</u>	<u>(2,762,428)</u>
Total capital assets being depreciated, net	<u>\$ 4,264,261</u>	<u>\$ (155,789)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,108,472</u>

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

Depreciation of governmental activities by function	
Legislative	\$ 28,589
Judicial	16,705
General government	27,821
Public safety	105,054
Public works	11,567
Health and welfare	42,940
Community and economic development	2,232
Recreation and culture	46,233
	<u>\$ 281,141</u>
Depreciation of business-type activities by function	
Enterprise funds:	
Sportsplex	<u>\$ 155,789</u>

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 194,662	\$ 51,625	\$ (38,932)	\$ 207,355	\$ 41,471
Business-type Activities					
2010 Refunding Bonds, \$4,385,000, due in annual installments of \$350,000 to \$495,000 through April 2020, interest at 2.0 to 3.603%, payable semi-annually, secured by the full faith and credit of the County	\$ 1,470,000	\$ -	\$ (495,000)	\$ 975,000	\$ 490,000

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

Year Ended December 31,	Business-type Activities	
	Principal	Interest
2019	\$ 490,000	\$ 25,805
2020	485,000	8,738
	<u>\$ 975,000</u>	<u>\$ 34,543</u>

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

10. RELATED PARTY TRANSACTIONS

During the year, the County entered into transactions with businesses that were owned by the immediate family members of two key members of the County's management. Expenditures in the amount of \$8,370 and \$17,564 were incurred and paid to these related parties for property posting related to foreclosures and snow removal, respectively.

KALKASKA COUNTY, MICHIGAN

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11. RISK MANAGEMENT

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

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

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

Employee Benefits-Commercial Insurance Provider-Workers' Compensation

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

At December 31, 2018, there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

12. PROPERTY TAXES

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

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

The taxable value of real and personal property for 2018, for which revenue was recognized in the general fund, was \$783,676,287. The general operating tax rate for this levy was 5.4562 mills. The taxable value of real and personal property for 2017, for which revenue was recognized in all other funds, was \$759,394,497. The tax rates for these voted levies were 1.0000 mills assessed for services provided to senior citizens, 0.1160 mills assessed for recycling services, 0.1333 mills assessed for animal control, 0.7300 mills assessed for debt service, 0.2500 mills assessed for library operations, 0.2500 mills assessed for the soil conservation district, and 0.2500 mills assessed for the Sportsplex.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

13. CONTINGENT LIABILITIES

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

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

14. PENSION BENEFIT PLANS

General Information About the Plan

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

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

Employees Covered by Benefit Terms. At the December 31, 2017 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	85
Inactive employees entitled to but not yet receiving benefits	33
Active employees	<u>96</u>
Total membership	<u><u>214</u></u>

Contributions. The County is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the employer may establish contribution rates to be paid by its covered employees.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Employer and employee contribution rates and amounts, by division/bargaining unit, were as follows for the year ended December 31, 2018:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
New Hires	Hybrid	Open	6.34%	0.00%
Teamsters	Defined Benefit	Closed	\$ 3,707	2.00%
Law Enforcement	Defined Benefit	Closed	32,428	0.00%
Commission on Aging	Defined Benefit	Closed	1,474	3% - 5%
Admin / Dept Heads	Defined Benefit	Closed	8,370	1.00%
Court Division	Defined Benefit	Closed	5,525	3.00%

Net Pension Liability. The County's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017.

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

KALKASKA COUNTY, MICHIGAN

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	55.50%	6.15%	3.41%
Global fixed income	18.50%	1.26%	0.23%
Real assets	13.50%	7.22%	0.98%
Diversifying strategies	12.50%	5.00%	0.63%
	100.00%		
Inflation			2.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.00%

Discount Rate. The discount rate used to measure the total pension liability is 8.00% for the 2017 actuarial valuation. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Change in Net Pension Liability

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2017	\$ 21,245,435	\$ 15,642,861	\$ 5,602,574
Changes for the year:			
Service cost	312,651	-	312,651
Interest	1,657,063	-	1,657,063
Differences between expected and actual experience	(141,100)	-	(141,100)
Employer contributions	-	735,665	(735,665)
Employee contributions	-	16,561	(16,561)
Net investment income	-	(597,423)	597,423
Benefit payments, including refunds of employee contributions	(1,376,947)	(1,376,947)	-
Administrative expense	-	(29,979)	29,979
Other changes	7,252	-	7,252
Net changes	458,919	(1,252,123)	1,711,042
Balances at December 31, 2018	\$ 21,704,354	\$ 14,390,738	\$ 7,313,616

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the County, calculated using the discount rate of 8.00%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
County's net pension liability	\$ 9,750,580	\$ 7,313,616	\$ 5,263,090

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

For governmental activities, the net pension liability is generally liquidated by the general fund.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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

For the year ended December 31, 2018, the County recognized pension expense of \$1,361,991. The County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 213,538	\$ 259,158	\$ (45,620)
Changes in assumptions	402,403	-	402,403
Net difference between projected and actual earnings on pension plan investments	<u>1,110,423</u>	<u>-</u>	<u>1,110,423</u>
Total	<u>\$ 1,726,364</u>	<u>\$ 259,158</u>	<u>\$ 1,467,206</u>

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

Year Ended December 31,	Amount
2019	\$ 596,847
2020	326,414
2021	179,413
2022	<u>364,532</u>
Total	<u>\$ 1,467,206</u>

Payable to the Pension Plan. At December 31, 2018, the County reported a payable of \$66,245 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018.

15. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The Kalkaska County Retiree Medical Plan is a single-employer defined benefit healthcare plan administered by Kalkaska County and can be amended at its discretion. Eligibility is based on the following: Commission on Aging, Kaliseum and other Teamsters may be eligible at age 55 with 25 years of service or age 60 with 15 years of service. Sheriff employees may be eligible with 25 years of service or age 60 with 15 years of service. Separate financial statements are not prepared for this plan.

KALKASKA COUNTY, MICHIGAN

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Benefits Provided. The Plan provides postemployment healthcare benefits to employees who retired from Kalkaska County. Substantially all employees hired prior to January 1, 2013, for sheriff department employees, December 31, 2012 for Teamsters members and January 1, 2017, of others, are eligible for benefits. For those eligible employees who retire with 25 or more years of service, the County pays the pre-65 single premium amount up to \$500 per month. For those eligible employees who retire with 15-24 years of service, the County pays 50% of the pre-65 single premium amount up to \$250 per month. After age 65, supplemental coverage is available at 100% cost to retirees. The activity of this program is accounted for in the OPEB Trust fund.

Contributions. Active members are not obligated to make contributions to the Plan at this time. The County is required to contribute the annual required contribution of the employer at an actuarially determined rate. The contribution requirements of plan members and the County are established and may be amended by the County Board of Commissioners.

Plan Membership. At December 31, 2017, the date of the most recent actuarial valuation, plan membership consisted of the following::

Active plan members	47
Retirees and beneficiaries receiving benefits	<u>22</u>
Total membership	<u><u>69</u></u>

Net OPEB Liability of the County. The components of the net OPEB liability of the County at December 31, 2018, were as follows:

Total OPEB liability	\$ 1,202,108
Plan fiduciary net position	<u>222,838</u>
County's net OPEB liability	<u><u>\$ 979,270</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	18.5%

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions (which were determined by management utilizing the best information available), applied to all periods included in the measurement, unless otherwise specified:

Inflation – Included in investment rate of return

Salary increases – 3.5%

Investment rate of return – 4.55%, including inflation

Healthcare cost trend rates – The expected rate of increase in healthcare insurance premiums was based on projections by the County's management. A rate of 7.0% was used for 2017. A rate of 8.0% graded down to an ultimate rate of 5.0% will be used for future periods.

Retirement age for active employees – Based on the historical average retirement age for the covered group, active OPEB Plan members were assumed to retire at age 62.

KALKASKA COUNTY, MICHIGAN

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Marital status – None of the active employees are assumed to have a covered spouse at retirement.

Mortality – Life expectancies were based on mortality tables from the 2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables.

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.

Health insurance premiums – 2018 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Probability of accepting benefits – Based on the historical participation rate, a probability rate of accepting benefits of 35% was utilized.

Investment Policy. The OPEB Plan's policy in regard to the allocation of invested assets is established and may be amended by the County Commission. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment processes that the County Commission deems appropriate. The OPEB Plan's asset allocation policy is shown below.

Rate of Return. For the year ended December 31, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 4.55 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB Plan investments was determined using a forward looking estimate of capital market returns model for each investment major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and investment expenses. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Cash and cash alternatives	15.3%	1.00%	0.15%
Investment grade short maturity fixed income	35.4%	4.14%	1.47%
Noninvestment grade fixed income	10.3%	5.86%	0.60%
Allocation strategies	12.6%	5.16%	0.65%
World allocation strategies	26.4%	6.35%	1.68%
	<u>100.0%</u>		
Investment rate of return			<u>4.55%</u>

KALKASKA COUNTY, MICHIGAN

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Discount Rate. The blended discount rate used to measure the total OPEB liability was 4.55%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. The discount rate used for December 31, 2017 was 4.76%.

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

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at December 31, 2017	\$ 1,234,506	\$ 254,816	\$ 979,690
Changes for the year:			
Service cost	20,488	-	20,488
Interest	57,885	-	57,885
Differences between expected and actual experience	(69,567)	-	(69,567)
Changes in assumptions	24,829	-	24,829
Employer contributions	-	38,601	(38,601)
Retiree contributions	91,829	91,829	-
Net investment income (loss)	-	(4,546)	4,546
Benefit payments, including refunds of employee contributions	(157,862)	(157,862)	-
Net changes	(32,398)	(31,978)	(420)
Balances at December 31, 2018	\$ 1,202,108	\$ 222,838	\$ 979,270

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the County, calculated using the discount rate of 4.55%, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (3.55%) or 1% higher (5.55%) than the current rate:

1% Decrease (3.55%)	Current Discount Rate (4.55%)	1% Increase (5.55%)
\$ 1,063,601	\$ 979,270	\$ 903,022

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Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability of the County, calculated using the healthcare cost trend rate of 7.0%, as well as what the County's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

1% Decrease (6.0%)	Current Healthcare Cost Trend Rate (7.0%)	1% Increase (8.0%)
\$ 911,672	\$ 979,270	\$ 1,058,549

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of \$60,688. The County reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 54,581	\$ (54,581)
Changes in assumptions	19,480	-	19,480
Net difference between projected and actual earnings on OPEB plan investments	12,594	-	12,594
Total	<u>\$ 32,074</u>	<u>\$ 54,581</u>	<u>\$ (22,507)</u>

Amounts reported as deferred outflows/inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

Year Ended	Amount
2019	\$ (6,490)
2020	(6,490)
2021	(6,490)
2022	<u>(3,037)</u>
Total	<u>\$ (22,507)</u>

Payable to the OPEB Plan. As of year end, the County did not have any outstanding contributions due to the plan.

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan's fiduciary net position is available in the financial statements for the other postemployment benefit trust fund.

For governmental activities, the net OPEB liability is generally liquidated by the general fund.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

16. FUND BALANCES - GOVERNMENTAL FUNDS

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

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepays	\$ 198,045	\$ -	\$ 6,298	\$ 12,528	\$ 216,871
Restricted for:					
Judicial	-	-	-	105,258	105,258
Public safety	-	-	-	966,647	966,647
Building inspections	-	-	-	325,372	325,372
Community and economic development	-	54,576	-	-	54,576
Health and welfare	-	-	54,717	135,381	190,098
Recreation and culture	-	-	-	402,829	402,829
Veteran's incentive grant	5,092	-	-	-	5,092
Marriage counseling grant	9,247	-	-	-	9,247
Total restricted	14,339	54,576	54,717	1,935,487	2,059,119
Committed for:					
Public safety	-	-	-	27,968	27,968
Capital improvements	-	-	-	767,175	767,175
Historic preservation	-	-	-	256,790	256,790
Unfunded retirement	527,089	-	-	-	527,089
Other purposes	26,975	-	-	22,372	49,347
Total committed	554,064	-	-	1,074,305	1,628,369
Assigned for:					
Car seat safety	504	-	-	-	504
Elections	58,477	-	-	-	58,477
County vehicles	17,040	-	-	-	17,040
Long-term technology needs	208,261	-	-	-	208,261
Worker's compensation	18,983	-	-	-	18,983
Long-term building needs	124,378	-	-	-	124,378
Tower repair	4,590	-	-	-	4,590
Sick time buyout	25,235	-	-	-	25,235
Veteran's relief	2,829	-	-	-	2,829
Subsequent budget	152,572	-	-	-	152,572
Other purposes	15,135	-	-	-	15,135
Total assigned	628,004	-	-	-	628,004
Unassigned	1,660,001	-	-	-	1,660,001
Total fund balances, governmental funds	\$ 3,054,453	\$ 54,576	\$ 61,015	\$ 3,022,320	\$ 6,192,364

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of December 31, 2018, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 526,222	\$ -	\$ 5,271,973
Capital assets being depreciated, net	3,067,272	4,108,472	18,399,507
	<u>3,593,494</u>	<u>4,108,472</u>	<u>23,671,480</u>
Related debt:			
Total bonds and loans payable	-	975,000	-
Capital leases	-	-	1,285,866
	<u>-</u>	<u>975,000</u>	<u>1,285,866</u>
Net investment in capital assets	<u>\$ 3,593,494</u>	<u>\$ 3,133,472</u>	<u>\$ 22,385,614</u>

18. RESTATEMENT

The County adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. This OPEB standard requires the County to recognize on the face of the financial statements its net OPEB liability. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information. In connection with the implementation of this standard, the prior reported net other postemployment benefit obligation was eliminated. As a result of implementing this statement, the beginning net position of the governmental activities was decreased by \$1,224,925.



REQUIRED SUPPLEMENTARY INFORMATION

KALKASKA COUNTY, MICHIGAN

Required Supplementary Information

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

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

	Year Ended December 31,			
	2015	2016	2017	2018
Total pension liability				
Service cost	\$ 354,494	\$ 356,320	\$ 321,174	\$ 312,651
Interest	1,449,248	1,507,358	1,630,256	1,657,063
Differences between expected and actual experience	-	533,845	(306,667)	(141,100)
Changes of assumptions	-	1,006,009	-	-
Benefit payments, including refunds of employee contributions	(1,093,074)	(1,190,966)	(1,248,962)	(1,376,947)
Other changes	41,736	(58,805)	7,538	7,252
Net change in total pension liability	752,404	2,153,761	403,339	458,919
Total pension liability, beginning of year	17,935,931	18,688,335	20,842,096	21,245,435
Total pension liability, end of year	18,688,335	20,842,096	21,245,435	21,704,354
Plan fiduciary net position				
Employer contributions	568,543	572,269	745,157	735,665
Employee contributions	69,217	26,330	21,600	16,561
Net investment income (loss)	(209,081)	1,501,673	1,871,410	(597,423)
Benefit payments, including refunds of employee contributions	(1,093,074)	(1,190,966)	(1,248,962)	(1,376,947)
Administrative expense	(30,654)	(29,660)	(29,652)	(29,979)
Net change in plan fiduciary net position	(695,049)	879,646	1,359,553	(1,252,123)
Plan fiduciary net position, beginning of year	14,098,711	13,403,662	14,283,308	15,642,861
Plan fiduciary net position, end of year	13,403,662	14,283,308	15,642,861	14,390,738
County's net pension liability	\$ 5,284,673	\$ 6,558,788	\$ 5,602,574	\$ 7,313,616
Plan fiduciary net position as a percentage of total pension liability	71.7%	68.5%	73.6%	66.3%
Covered payroll	\$ 3,453,033	\$ 3,581,217	\$ 3,270,085	\$ 3,330,925
County's net pension liability as a percentage of covered payroll	153.0%	183.1%	171.3%	219.6%

Notes:

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

Changes in assumptions. In 2016, amounts reported as changes in assumptions resulted in primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return and changes in asset smoothing.

KALKASKA COUNTY, MICHIGAN

Required Supplementary Information

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

Schedule of the Net Pension Liability

Fiscal Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 18,688,335	\$ 13,403,662	\$ 5,284,673	71.7%	\$ 3,453,033	153.0%
2016	20,842,096	14,283,308	6,558,788	68.5%	3,581,217	183.1%
2017	21,245,435	15,642,861	5,602,574	73.6%	3,270,085	171.3%
2018	21,704,354	14,390,738	7,313,616	66.3%	3,330,925	219.6%

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

Changes in assumptions. In 2016, amounts reported as changes in assumptions resulted in primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return and changes in asset smoothing.

KALKASKA COUNTY, MICHIGAN

Required Supplementary Information

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

Schedule of Contributions

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 568,543	\$ 568,543	\$ -	\$ 3,453,033	16.5%
2016	572,269	572,269	-	3,581,217	16.0%
2017	745,157	745,157	-	3,270,085	22.8%
2018	735,665	735,665	-	3,330,925	22.1%

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

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates (2018, based on 12/31/2016 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll
Remaining amortization period	10 years
Asset valuation method	Open; 5 year smooth
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement and Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on a blend of the RP-2014 Mortality Tables, with of a 50% Male and 50% Female blend. For healthy retirees, the regular mortality table included rates multiplied by 105%.

KALKASKA COUNTY, MICHIGAN

Required Supplementary Information

Single-Employer Other Postemployment Benefit Plan - Primary Government

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

	Year Ended December 31,	
	2017	2018
Total OPEB liability		
Service cost	\$ 19,557	\$ 20,488
Interest	23,695	57,885
Differences between expected and actual experience	56,941	(69,567)
Changes in assumptions	691,804	24,829
Retiree contributions	-	91,829
Benefit payments, including refunds of employee contributions	(71,423)	(157,862)
Net change in total OPEB liability	720,574	(32,398)
Total OPEB liability, beginning of year	513,932	1,234,506
Total OPEB liability, end of year	1,234,506	1,202,108
Plan fiduciary net position		
Employer contributions	38,601	38,601
Retiree contributions	-	91,829
Net investment income (loss)	7,612	(4,546)
Benefit payments, including refunds of employee contributions	(71,423)	(157,862)
Net change in plan fiduciary net position	(25,210)	(31,978)
Plan fiduciary net position, beginning of year	280,026	254,816
Plan fiduciary net position, end of year	254,816	222,838
County's net OPEB liability	\$ 979,690	\$ 979,270
Plan fiduciary net position as a percentage of total OPEB liability	20.6%	18.5%
Covered payroll	\$ 2,083,575	\$ 2,027,487
County's net OPEB liability as a percentage of covered payroll	47.0%	48.3%

Notes:

GASB 75 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Changes in assumptions:

For the December 31, 2018 valuation, amounts reported as changes in assumptions resulted in primarily from adjustments to the mortality tables and salary scale, decrease in the discount rate from 4.76% to 4.55%, and resetting the initial healthcare cost trend rates.

For the December 31, 2017 valuation, amounts reported as changes in assumptions resulted in primarily from updates to the mortality tables, increase in the discount rate from 4.00% to 4.76%, and resetting the initial healthcare cost trend rates. In addition the implicit subsidy was valued.

KALKASKA COUNTY, MICHIGAN

Required Supplementary Information Single-Employer Other Postemployment Benefit Plan - Primary Government

Schedule of the Net OPEB Liability

Year Ended December 31,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Liability as Percentage of Covered Payroll
2017	\$ 1,234,506	\$ 254,816	\$ 979,690	20.6%	\$ 2,083,575	47.0%
2018	1,202,108	222,838	979,270	18.5%	2,027,487	48.3%

Notes: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

KALKASKA COUNTY, MICHIGAN

Required Supplementary Information

Single-Employer Other Postemployment Benefit Plan - Primary Government

Schedule of Contributions

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2017	\$ 38,601	\$ 38,601	\$ -	\$ 2,083,575	1.9%
2018	38,601	38,601	-	2,027,487	1.9%

Note: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	20 years
Asset valuation method	Market value
Inflation	Included in investment rate of return
Salary increases	1.50%
Investment rate of return	4.76%, including inflation
Retirement age	Based on the historical average retirement age for the covered group, active OPEB Plan members were assumed to retire at age 62.
Mortality	Life expectancies were based on mortality tables from the 2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables.
Healthcare trend rates	The expected rate of increase in healthcare insurance premiums was based on projections by the County's management. A rate of 7.0% was used for 2017. A rate of 8.0% graded down to an ultimate rate of 5.0% will be used for future periods.

KALKASKA COUNTY, MICHIGAN

Required Supplementary Information

Single-Employer Other Postemployment Benefit Plan - Primary Government

Schedule of Investment Returns

Year Ended December 31,	Annual Money- Weighted Rate of Return, Net of Investment Expense
2017	4.76%
2018	4.55%

Note: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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

KALKASKA COUNTY, MICHIGAN

Schedule of Expenditures by Activity Budget and Actual General Fund For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Legislative:				
County board	\$ 232,260	\$ 244,960	\$ 249,617	\$ 4,657
Judicial:				
Judicial control	792,431	800,547	754,115	(46,432)
46th circuit trial court/ friend of the court	86,250	86,250	62,482	(23,768)
Jury board	9,300	9,300	4,422	(4,878)
Prosecuting attorney	397,262	403,548	391,010	(12,538)
Total judicial	1,285,243	1,299,645	1,212,029	(87,616)
General government:				
Elections	32,500	38,929	51,259	12,330
County clerk	270,986	284,509	249,847	(34,662)
Equalization	164,136	166,204	162,366	(3,838)
Survey Remonumentation	33,426	44,378	44,378	-
Treasurer	188,610	190,810	178,079	(12,731)
County government	247,840	306,340	187,876	(118,464)
Building and grounds	323,449	403,423	394,666	(8,757)
Various accounts	35,232	35,232	36,124	892
Liability insurance	223,159	223,159	220,591	(2,568)
Total general government	1,519,338	1,692,984	1,525,186	(167,798)
Public safety:				
Law enforcement	846,233	852,923	845,009	(7,914)
Sheriff fleet	130,830	133,212	121,547	(11,665)
Court civil transports	82,905	83,920	58,590	(25,330)
Administration	338,827	341,224	331,118	(10,106)
Township deputies	170,730	170,865	175,493	4,628
Community corrections	87,441	95,011	96,031	1,020
Domestic violence grant	17,461	17,516	21,711	4,195
OHSP grant	6,200	6,200	3,903	(2,297)
Marine law enforcement	10,200	10,255	8,849	(1,406)
Snowmobile law enforcement	8,358	8,388	7,642	(746)
Secondary road patrol PA 416 grant	86,609	92,339	75,151	(17,188)
DNR ORV grant	31,675	31,960	36,134	4,174
Zero tolerance	27,767	34,864	34,452	(412)
Hunters safety class	1,000	1,262	(144)	(1,406)
Corrections Department/Jail	829,741	912,381	894,157	(18,224)
Emergency preparedness	19,865	19,865	17,219	(2,646)
Total public safety	2,695,842	2,812,184	2,726,862	(85,322)
Public works:				
Public works	149,820	115,895	95,678	(20,217)

continued...

KALKASKA COUNTY, MICHIGAN

Schedule of Expenditures by Activity Budget and Actual General Fund For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Health and welfare:				
Health department	\$ 210,282	\$ 210,432	\$ 203,050	\$ (7,382)
Veteran's affairs	42,759	47,532	36,256	(11,276)
Total health and welfare	<u>253,041</u>	<u>257,964</u>	<u>239,306</u>	<u>(18,658)</u>
Community and economic development:				
Register of deeds	188,904	189,504	186,523	(2,981)
Zoning	93,540	93,740	88,966	(4,774)
MSU extension	73,495	73,545	68,867	(4,678)
Total community and economic development	<u>355,939</u>	<u>356,789</u>	<u>344,356</u>	<u>(12,433)</u>
Other:				
Fringe	221,400	221,400	125,304	(96,096)
Other appropriation	80,462	51,762	51,606	(156)
Total other	<u>301,862</u>	<u>273,162</u>	<u>176,910</u>	<u>(96,252)</u>
Total expenditures	<u>\$ 6,793,345</u>	<u>\$ 7,053,583</u>	<u>\$ 6,569,944</u>	<u>\$ (483,639)</u>

concluded

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2018

	Special Revenue Funds					
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Reserve Officers	Friend of the Court	Animal Control Donation
Assets						
Cash and cash equivalents	\$ 14	\$ 28,154	\$ 51	\$ 2,666	\$ 38,524	\$ 110,830
Receivables:						
Accounts	-	-	-	-	-	-
Taxes	-	-	-	-	-	-
Due from other governments	-	-	-	-	67,754	-
Prepays	-	-	-	-	98	-
Total assets	<u>\$ 14</u>	<u>\$ 28,154</u>	<u>\$ 51</u>	<u>\$ 2,666</u>	<u>\$ 106,376</u>	<u>\$ 110,830</u>
Liabilities						
Accounts payable	\$ -	\$ 5,824	\$ 9	\$ -	\$ 1,802	\$ 996
Accrued liabilities	-	-	-	-	2,510	-
Due to other governments	-	-	-	-	802	-
Total liabilities	<u>-</u>	<u>5,824</u>	<u>9</u>	<u>-</u>	<u>5,114</u>	<u>996</u>
Deferred inflows of resources						
Taxes levied for a subsequent period	-	-	-	-	-	-
Fund balances						
Nonspendable	-	-	-	-	98	-
Restricted	14	-	-	2,666	101,164	109,834
Committed	-	22,330	42	-	-	-
Total fund balances	<u>14</u>	<u>22,330</u>	<u>42</u>	<u>2,666</u>	<u>101,262</u>	<u>109,834</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 14</u>	<u>\$ 28,154</u>	<u>\$ 51</u>	<u>\$ 2,666</u>	<u>\$ 106,376</u>	<u>\$ 110,830</u>

Special Revenue Funds

Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/Technology	Indigent Defense	Recycling	Corrections Officers Training
\$ 256,790	\$ 25,905	\$ 330,475	\$ 540,460	\$ 119,601	\$ 6,894	\$ 59,909	\$ 10,239
-	-	-	111,389	-	-	-	-
-	-	-	-	-	-	85,602	-
-	-	-	44,254	-	-	2,019	-
-	-	2,291	8,215	-	-	480	-
<u>\$ 256,790</u>	<u>\$ 25,905</u>	<u>\$ 332,766</u>	<u>\$ 704,318</u>	<u>\$ 119,601</u>	<u>\$ 6,894</u>	<u>\$ 148,010</u>	<u>\$ 10,239</u>
\$ -	\$ 10,053	\$ 2,288	\$ 44,075	\$ 1,851	\$ 2,800	\$ 1,070	\$ -
-	-	2,168	5,459	-	-	1,137	-
-	-	647	1,716	-	-	386	-
-	10,053	5,103	51,250	1,851	2,800	2,593	-
-	-	-	-	-	-	90,906	-
-	-	2,291	8,215	-	-	480	-
-	-	325,372	644,853	117,750	4,094	54,031	10,239
256,790	15,852	-	-	-	-	-	-
<u>256,790</u>	<u>15,852</u>	<u>327,663</u>	<u>653,068</u>	<u>117,750</u>	<u>4,094</u>	<u>54,511</u>	<u>10,239</u>
<u>\$ 256,790</u>	<u>\$ 25,905</u>	<u>\$ 332,766</u>	<u>\$ 704,318</u>	<u>\$ 119,601</u>	<u>\$ 6,894</u>	<u>\$ 148,010</u>	<u>\$ 10,239</u>

continued...

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2018

	Special Revenue Funds					
	Animal Control	Law Library	Concealed Pistol Licensing	County Library	Soil Conservation	Inmate Programs & Services
Assets						
Cash and cash equivalents	\$ 24,538	\$ 539	\$ 37,437	\$ 421,263	\$ 13,654	\$ 52,572
Receivables:						
Accounts	-	-	-	193	-	-
Taxes	98,146	-	-	184,479	184,478	-
Due from other governments	-	-	-	-	-	-
Prepays	484	-	-	480	-	-
Total assets	<u>\$ 123,168</u>	<u>\$ 539</u>	<u>\$ 37,437</u>	<u>\$ 606,415</u>	<u>\$ 198,132</u>	<u>\$ 52,572</u>
Liabilities						
Accounts payable	\$ 2,625	\$ -	\$ -	\$ 3,776	\$ 385	\$ -
Accrued liabilities	1,121	-	-	3,106	-	-
Due to other governments	362	-	-	844	-	-
Total liabilities	<u>4,108</u>	<u>-</u>	<u>-</u>	<u>7,726</u>	<u>385</u>	<u>-</u>
Deferred inflows of resources						
Taxes levied for a subsequent period	104,229	-	-	195,919	195,919	-
Fund balances						
Nonspendable	484	-	-	480	-	-
Restricted	14,347	539	37,437	402,290	1,828	52,572
Committed	-	-	-	-	-	-
Total fund balances	<u>14,831</u>	<u>539</u>	<u>37,437</u>	<u>402,770</u>	<u>1,828</u>	<u>52,572</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 123,168</u>	<u>\$ 539</u>	<u>\$ 37,437</u>	<u>\$ 606,415</u>	<u>\$ 198,132</u>	<u>\$ 52,572</u>

Special Revenue Funds			Capital Project Funds		Total
TNT Drug Awareness	Child Care	Marine Clearwater Township	County Building	County Library Building	
\$ 12,116	\$ 115,429	\$ 29,507	\$ 334,564	\$ 438,271	\$ 3,010,402
-	-	-	-	-	111,582
-	-	-	-	-	552,705
-	9,463	-	-	-	123,490
-	480	-	-	-	12,528
<u>\$ 12,116</u>	<u>\$ 125,372</u>	<u>\$ 29,507</u>	<u>\$ 334,564</u>	<u>\$ 438,271</u>	<u>\$ 3,810,707</u>
\$ -	\$ 20,670	\$ -	\$ -	\$ 5,660	\$ 103,884
-	603	-	-	-	16,104
-	76,669	-	-	-	81,426
-	97,942	-	-	5,660	201,414
-	-	-	-	-	586,973
-	480	-	-	-	12,528
-	26,950	29,507	-	-	1,935,487
12,116	-	-	334,564	432,611	1,074,305
<u>12,116</u>	<u>27,430</u>	<u>29,507</u>	<u>334,564</u>	<u>432,611</u>	<u>3,022,320</u>
<u>\$ 12,116</u>	<u>\$ 125,372</u>	<u>\$ 29,507</u>	<u>\$ 334,564</u>	<u>\$ 438,271</u>	<u>\$ 3,810,707</u>

concluded

KALKASKA COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures
and Change in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2018

	Special Revenue Funds					
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Reserve Officers	Friend of the Court	Animal Control Donation
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental:						
Federal	2,145	-	-	-	176,421	-
State	-	-	-	-	15,928	-
Local	-	-	-	-	7,500	-
Charges for services	-	3,734	976	-	29,314	-
Fines and forfeitures	-	-	-	-	-	-
Interest	37	146	16	15	202	395
Rents	-	29,185	23,200	-	-	-
Donations	-	-	-	-	-	-
Other	-	-	-	500	-	9,766
Total revenues	2,182	33,065	24,192	515	229,365	10,161
Expenditures						
Current:						
Judicial	-	-	-	-	212,699	-
Public safety	14,031	240	-	1,057	-	2,510
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	43,694	28,599	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	14,031	43,934	28,599	1,057	212,699	2,510
Revenues over (under) expenditures	(11,849)	(10,869)	(4,407)	(542)	16,666	7,651
Other financing sources (uses)						
Transfers in	3,400	-	550	-	-	-
Transfers out	-	-	-	-	-	(1,482)
Total other financing sources (uses)	3,400	-	550	-	-	(1,482)
Net change in fund balances	(8,449)	(10,869)	(3,857)	(542)	16,666	6,169
Fund balances, beginning of year	8,463	33,199	3,899	3,208	84,596	103,665
Fund balances, end of year	\$ 14	\$ 22,330	\$ 42	\$ 2,666	\$ 101,262	\$ 109,834

Special Revenue Funds

Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/Technology	Indigent Defense	Recycling	Corrections Officers Training
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87,255	\$ -
-	-	321,564	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	165,907	-	-	6,940	-
-	-	-	-	-	-	-	-
-	-	-	494,312	-	-	26,561	4,730
32,170	-	-	-	-	-	-	-
868	28	880	6,072	-	-	214	34
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	20,175	-	-	38,574	-	-	-
<u>33,038</u>	<u>20,203</u>	<u>322,444</u>	<u>666,291</u>	<u>38,574</u>	<u>-</u>	<u>120,970</u>	<u>4,764</u>
3,598	-	-	-	-	5,655	-	-
-	10,541	220,580	533,448	22,448	-	-	4,342
-	-	-	-	-	-	113,139	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>3,598</u>	<u>10,541</u>	<u>220,580</u>	<u>533,448</u>	<u>22,448</u>	<u>5,655</u>	<u>113,139</u>	<u>4,342</u>
<u>29,440</u>	<u>9,662</u>	<u>101,864</u>	<u>132,843</u>	<u>16,126</u>	<u>(5,655)</u>	<u>7,831</u>	<u>422</u>
-	-	-	-	-	9,749	-	-
-	(1,507)	-	(79,000)	-	-	-	-
-	(1,507)	-	(79,000)	-	9,749	-	-
29,440	8,155	101,864	53,843	16,126	4,094	7,831	422
227,350	7,697	225,799	599,225	101,624	-	46,680	9,817
<u>\$ 256,790</u>	<u>\$ 15,852</u>	<u>\$ 327,663</u>	<u>\$ 653,068</u>	<u>\$ 117,750</u>	<u>\$ 4,094</u>	<u>\$ 54,511</u>	<u>\$ 10,239</u>

continued...

KALKASKA COUNTY, MICHIGAN

**Combining Statement of Revenues, Expenditures
and Change in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2018**

	Special Revenue Funds					
	Animal Control	Law Library	Concealed Pistol Licensing	County Library	Soil Conservation	Inmate Programs & Services
Revenues						
Taxes	\$ 100,052	\$ -	\$ -	\$ 188,167	\$ 176,874	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental:						
Federal	-	-	-	-	-	-
State	2,380	-	-	25,800	-	-
Local	-	2,500	-	-	-	-
Charges for services	7,041	-	11,446	9,396	-	21,992
Fines and forfeitures	-	-	-	92,414	-	-
Interest	59	-	95	2,463	-	128
Rents	-	-	-	-	-	-
Donations	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	109,532	2,500	11,541	318,240	176,874	22,120
Expenditures						
Current:						
Judicial	-	9,055	-	-	-	-
Public safety	96,821	-	-	-	-	-
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	5,053
Recreation and culture	-	-	-	304,328	175,046	-
Capital outlay	-	-	-	-	-	-
Total expenditures	96,821	9,055	-	304,328	175,046	5,053
Revenues over (under) expenditures	12,711	(6,555)	11,541	13,912	1,828	17,067
Other financing sources (uses)						
Transfers in	1,482	7,000	-	-	-	-
Transfers out	-	-	-	(11,100)	-	-
Total other financing sources (uses)	1,482	7,000	-	(11,100)	-	-
Net change in fund balances	14,193	445	11,541	2,812	1,828	17,067
Fund balances, beginning of year	638	94	25,896	399,958	-	35,505
Fund balances, end of year	\$ 14,831	\$ 539	\$ 37,437	\$ 402,770	\$ 1,828	\$ 52,572

Special Revenue Funds			Capital Project Funds		Total
TNT Drug Awareness	Child Care	Marine Clearwater Township	County Building	County Library Building	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 552,348
-	-	-	-	-	321,564
-	-	-	-	-	178,566
-	119,152	-	-	-	336,107
-	-	8,000	-	-	18,000
-	-	-	-	-	609,502
-	-	-	-	-	124,584
53	94	82	1,057	6,619	19,557
-	-	-	-	-	52,385
-	-	-	-	22,489	22,489
-	-	-	26,476	-	95,491
<u>53</u>	<u>119,246</u>	<u>8,082</u>	<u>27,533</u>	<u>29,108</u>	<u>2,330,593</u>
-	-	-	-	-	231,007
-	-	-	-	-	906,018
-	-	-	-	-	113,139
480	267,360	130	-	-	273,023
-	-	-	-	23,060	574,727
-	-	-	12,000	-	12,000
<u>480</u>	<u>267,360</u>	<u>130</u>	<u>12,000</u>	<u>23,060</u>	<u>2,109,914</u>
<u>(427)</u>	<u>(148,114)</u>	<u>7,952</u>	<u>15,533</u>	<u>6,048</u>	<u>220,679</u>
-	175,000	-	3,031	11,100	211,312
-	-	-	-	-	(93,089)
-	175,000	-	3,031	11,100	118,223
(427)	26,886	7,952	18,564	17,148	338,902
<u>12,543</u>	<u>544</u>	<u>21,555</u>	<u>316,000</u>	<u>415,463</u>	<u>2,683,418</u>
<u>\$ 12,116</u>	<u>\$ 27,430</u>	<u>\$ 29,507</u>	<u>\$ 334,564</u>	<u>\$ 432,611</u>	<u>\$ 3,022,320</u>

concluded

KALKASKA COUNTY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2018

	Trust & Agency	NPI Wireless Zoning	Sheriff's Commissary	Sheriff Forfeiture	Traffic Safety Committee
Assets					
Cash and cash equivalents	\$ 161,118	\$ 3,117	\$ 5,494	\$ 13,225	\$ 1,377
Liabilities					
Undistributed collections	\$ 110,269	\$ 3,117	\$ 5,494	\$ 13,225	\$ 1,377
Other liabilities	50,849	-	-	-	-
Total liabilities	\$ 161,118	\$ 3,117	\$ 5,494	\$ 13,225	\$ 1,377



Library Penal Fine	Animal Control Adoption	Total
<u>\$ 3,616</u>	<u>\$ 2,464</u>	<u>\$ 190,411</u>
\$ 3,616	\$ 2,464	\$ 139,562
<u>-</u>	<u>-</u>	<u>50,849</u>
<u>\$ 3,616</u>	<u>\$ 2,464</u>	<u>\$ 190,411</u>

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INTERNAL CONTROL AND COMPLIANCE

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

June 26, 2019

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 26, 2019. Our report includes a reference to other auditors who audited the financial statements of the Kalkaska County Road Commission discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Kalkaska County, Michigan's Response to Finding

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

Purpose of this Report

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

Rehman Lobson LLC

KALKASKA COUNTY, MICHIGAN

Schedule of Findings and Responses For the Year Ended December 31, 2018

2018-001 - Material Audit Adjustment

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

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

Condition. During our audit, we identified and proposed a certain material adjustment (which was approved and posted by management) to adjust the County's general ledger to the appropriate balances. This adjustment was necessary to properly record the change in the Sportsplex Fund's portion of the net pension liability and related deferrals.

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

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

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

View of Responsible Officials. Management is contracting with an outside party to assist with year-end procedures and identify inappropriate balances to reduce the number of necessary audit adjustments. The County expects some adjustments each year to be discovered during the audit process, but hopes to eliminate any material adjustments.