

Kalkaska County, Michigan

Year Ended
December 31,
2017

Financial
Statements and
Supplementary
Information

KALKASKA COUNTY, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

June 28, 2018

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, 2017, 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, 2017, 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.

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 28, 2018, 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, 2017.

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 \$13,131,272 (net position). Of this amount, \$4,211,793 (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 \$516,731.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,931,825, a decrease of \$376,121 in comparison with the prior year. Approximately 32.3 percent of total governmental fund balance or \$1,918,472 is unassigned fund balance.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$1,920,748 or 28.9 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

The County adopts an annual appropriated budget for its General Fund and 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, 2017.

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 \$13,131,272 at the close of the most recent fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 8,833,669	\$ 9,065,690	\$ 6,455,501	\$ 6,277,685	\$15,289,170	\$15,343,375
Capital assets, net	3,154,899	2,439,965	4,264,261	4,313,549	7,419,160	6,753,514
Total assets	11,988,568	11,505,655	10,719,762	10,591,234	22,708,330	22,096,889
Deferred outflows of resources	896,195	1,671,846	27,717	34,120	923,912	1,705,966
Long-term debt	194,662	214,308	1,470,000	1,920,000	1,664,662	2,134,308
Other liabilities	6,005,672	6,865,522	216,825	170,768	6,222,497	7,036,290
Total liabilities	6,200,334	7,079,830	1,686,825	2,090,768	7,887,159	9,170,598
Deferred inflows of resources	1,853,361	1,293,142	760,450	724,574	2,613,811	2,017,716
Net position:						
Net investment in capital assets	3,154,899	2,439,965	2,794,261	2,393,549	5,949,160	4,833,514
Restricted	2,970,319	3,668,938	-	-	2,970,319	3,668,938
Unrestricted (deficit)	(1,294,150)	(1,304,374)	5,505,943	5,416,463	4,211,793	4,112,089
Total net position	\$ 4,831,068	\$ 4,804,529	\$ 8,300,204	\$ 7,810,012	\$13,131,272	\$12,614,541

A portion of the County's total net position, \$5,949,160 (45.3 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 \$2,970,319 (22.6 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 \$4,211,793 (32.1 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, 2017. The main reason for this deficit is the reporting of the net pension liability and related deferred items.

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues:						
Charges for services	\$ 3,011,429	\$ 2,850,810	\$ 708,798	\$ 874,397	\$ 3,720,227	\$ 3,725,207
Operating grants	1,095,305	1,209,658	854	-	1,096,159	1,209,658
Capital grants	13,357	15,904	-	-	13,357	15,904
General revenues:						
Property taxes	5,717,549	5,466,517	732,914	729,033	6,450,463	6,195,550
Convention facility tax	63,432	65,813	-	-	63,432	65,813
State revenue sharing	356,278	337,989	-	-	356,278	337,989
Unrestricted investment earnings	32,066	23,363	17,044	9,439	49,110	32,802
Other revenue	230,178	160,117	-	-	230,178	160,117
Total revenues	10,519,594	10,130,171	1,459,610	1,612,869	11,979,204	11,743,040
Expenses:						
Legislative	250,668	292,848	-	-	250,668	292,848
Judicial	1,194,858	1,266,965	-	-	1,194,858	1,266,965
General government	2,256,057	2,324,108	-	-	2,256,057	2,324,108
Public safety	4,217,027	4,014,972	-	-	4,217,027	4,014,972
Public works	119,001	265,457	-	-	119,001	265,457
Health & welfare	1,606,368	1,733,375	-	-	1,606,368	1,733,375
Community & economic development	200,387	208,476	-	-	200,387	208,476
Recreation & culture	659,105	492,594	-	-	659,105	492,594
Tax collection	-	-	82,731	75,883	82,731	75,883
Sportsplex	-	-	876,271	702,518	876,271	702,518
Total expenses	10,503,471	10,598,795	959,002	778,401	11,462,473	11,377,196
Change in net position before transfers						
	16,123	(468,624)	500,608	834,468	516,731	365,844
Transfers						
	10,416	10,416	(10,416)	(10,416)	-	-
Change in net position						
	26,539	(458,208)	490,192	824,052	516,731	365,844
Net position:						
Beginning of year	4,804,529	5,262,737	7,810,012	6,985,960	12,614,541	12,248,697
End of year	<u>\$ 4,831,068</u>	<u>\$ 4,804,529</u>	<u>\$ 8,300,204</u>	<u>\$ 7,810,012</u>	<u>\$13,131,272</u>	<u>\$12,614,541</u>

The County's net position increased by \$516,731 during the current fiscal year. Governmental activities reported an increase in net position of \$26,539, while business-type activities reported an increase of \$490,192.

KALKASKA COUNTY, MICHIGAN

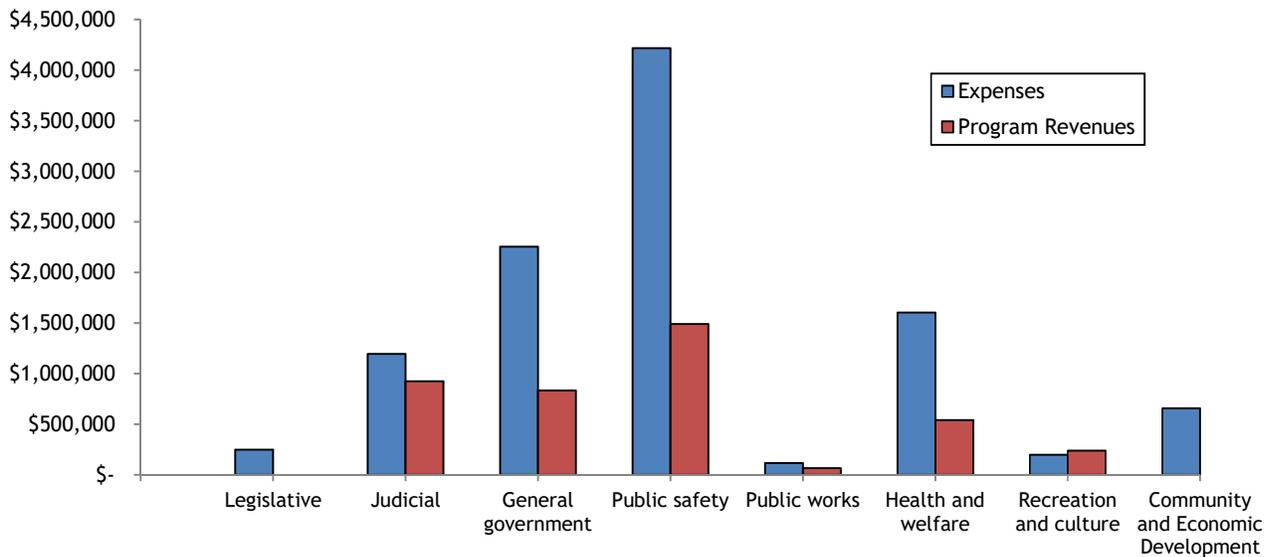
Management's Discussion and Analysis

Governmental Activities. Governmental activities increased the County's net position by \$26,539 compared to a decrease in the prior year of \$458,208. This change was due to an increase in governmental activities revenues of \$374,842 or 3.7%, and a decrease in governmental activities expenses of \$109,905, or 1.0 percent.

The increase in governmental activities revenue was driven by increases in charges for services and property taxes. The increase in property taxes was due to a new millage restricted for the soil conservation district. These increases were offset by a decrease in operating grant revenue.

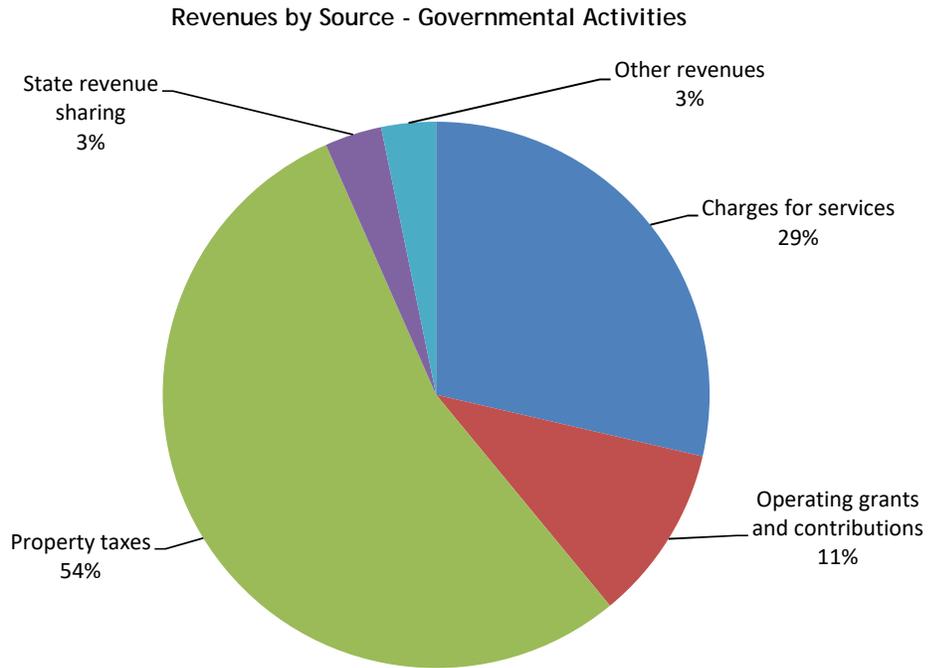
Expenses related to general government activities decreased by \$109,905 or 1.0 percent from 2016. The primary reasons for this decrease were elevated election costs related to the presidential election in 2016, non-capital contracted services related to significant upgrades to information technology, and costs related to a record retention project, completed in 2016.

Expenses and Program Revenues - Governmental Activities

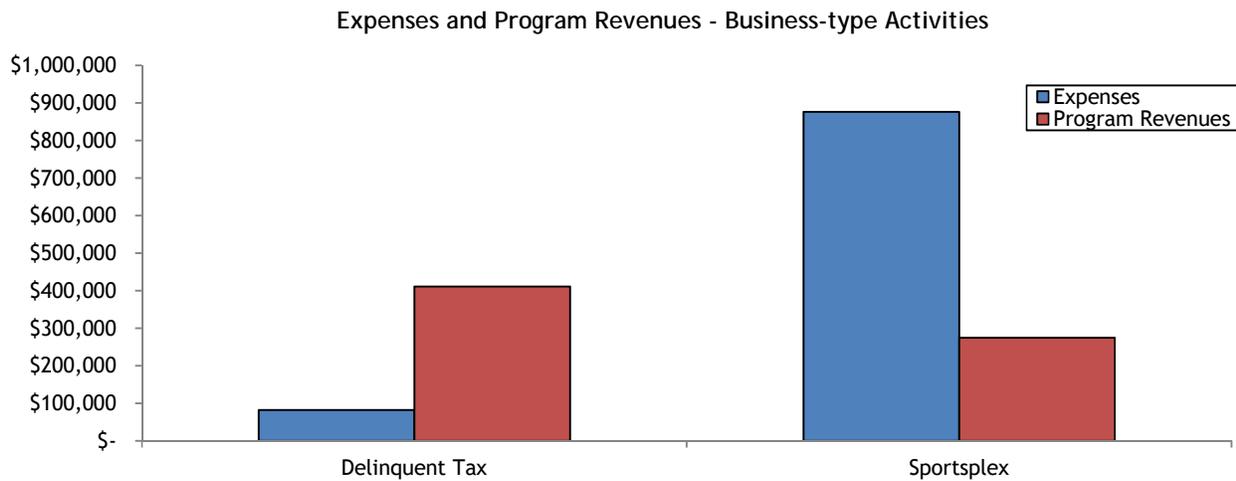


KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis



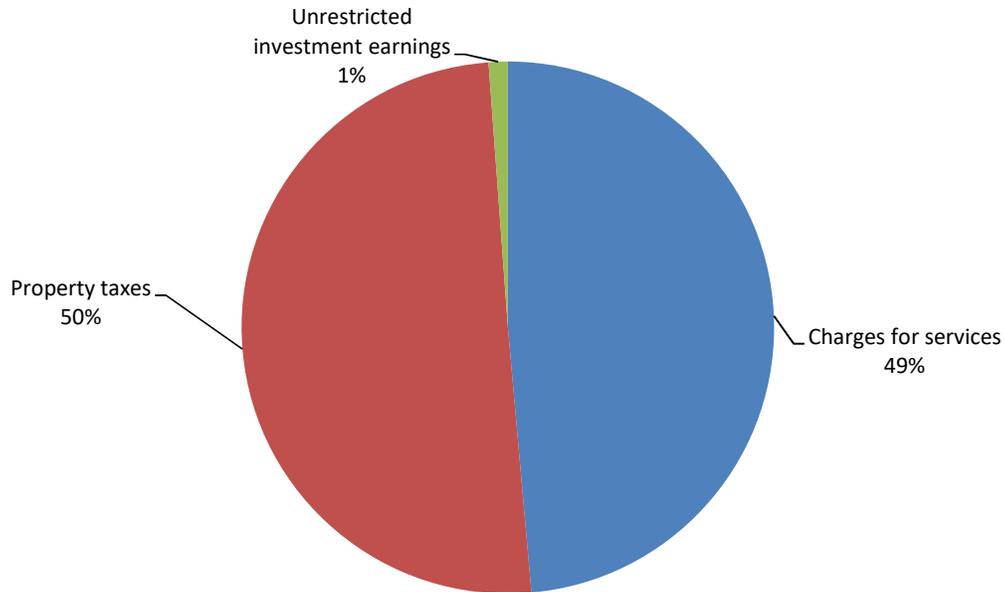
Business-type Activities. Business-type activities increased the County’s net position by \$490,192. This increase is primarily due to receipt of interest and penalties on delinquent taxes.



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 \$5,931,825, a decrease of \$376,121 in comparison with the prior year. Of this amount, 32.3 percent (\$1,918,472) 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) (\$199,001); B) restricted for use per various external agreements (\$2,195,244); C) is committed through formal action of the County Board (\$1,284,108); or D) is assigned for specific purposes through informal action of the County Board (\$335,000).

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 \$1,920,748 while total fund balance amounted to \$2,702,063. 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 28.9 percent of total General Fund expenditures, while total fund balance represents 40.6 percent of that same amount.

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

The fund balance of the County's General Fund decreased by \$15,325 during the current fiscal year compared to an increase in the prior year of \$120,365. The main cause of this change is an increase in transfers out of \$240,907 over the prior year. Transfers of \$332,007 were made from the General Fund to the Child Care fund during the 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 \$21,836 mostly due to collections from previously deferred Community Development Block Grant loans.

Fund balance for the Commission on Aging fund decreased by \$687,153 as costs were incurred related to the renovation of the Commissions building.

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, 2017 was \$5,505,943, with the Delinquent Tax and Sportsplex Fund reporting unrestricted net position of \$5,470,105 and \$11,748, respectively. The net position of the Delinquent Tax and Sportsplex Funds increased \$334,233 and \$131,869 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 newly formed Commissary fund provided \$24,090 in revenue and ended with an equal amount of net position. The new fund accounts for the activity of the inmate commissary at the County jail. In prior years, this activity was accounted for in a fiduciary fund.

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 \$186,959 or 2.8 percent more than the final amended budget.
- Actual expenditures for the year were \$278,565 or 4.0 percent less than the final amended budget.
- The amended budget for revenues and expenditures increased from the originally adopted budget by 2.0 and 4.4 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 provider of services.

Capital Asset and Debt Administration

Capital Assets. The County's capital assets for its governmental and business-type activities as of December 31, 2017 amounted to \$7,419,160 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements and machinery and equipment. The total increase of \$665,646 in the County's investment in capital assets for the current fiscal year was 9.9 percent. Most of this increase was attributable to the governmental activities (29.3 percent).

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 and County Library buildings were incurred in the amounts of \$786,602 and \$73,701, respectively, during the year and are included as construction in
- Several vehicles were purchased during the year.
- The above increases were offset by normal depreciation, as well as the County's effort to write off all capital assets that were recorded at an original cost of less than \$10,000, the County's approved capitalization threshold.
- Updated fitness equipment was purchased by the Sportsplex fund in the amount of \$99,240.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 452,521	\$ 452,521	\$ -	\$ -	\$ 452,521	\$ 452,521
Construction in progress	914,443	-	-	-	914,443	-
Buildings	1,203,637	1,346,601	4,156,683	4,291,619	5,360,320	5,638,220
Land improvements	72,720	87,483	-	-	72,720	87,483
Machinery and equipment	511,578	553,360	107,578	21,930	619,156	575,290
Total capital assets, net	\$ 3,154,899	\$ 2,439,965	\$ 4,264,261	\$ 4,313,549	\$ 7,419,160	\$ 6,753,514

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 \$1,664,662.

	Installment and Other Debt					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
2010 refunding bonds	\$ -	\$ -	\$ 1,470,000	\$ 1,920,000	\$ 1,470,000	\$ 1,920,000
Compensated absences	194,662	214,308	-	-	194,662	214,308
Total long-term debt	\$ 194,662	\$ 214,308	\$ 1,470,000	\$ 1,920,000	\$ 1,664,662	\$ 2,134,308

The County's total long-term debt decreased by \$469,646 (22.0 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.

KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

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 health care costs. The County has budgeted for the full impact 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 2018 fiscal year.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

KALKASKA COUNTY, MICHIGAN

Statement of Net Position

December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Assets				
Cash and cash equivalents	\$ 5,635,616	\$ 4,801,984	\$ 10,437,600	\$ 2,180,363
Receivables, net	2,753,817	1,649,355	4,403,172	1,442,255
Inventories	-	2,009	2,009	371,715
Prepays	199,001	2,153	201,154	60,218
Net other postemployment benefits asset	245,235	-	245,235	-
Capital assets not being depreciated	1,366,964	-	1,366,964	5,223,018
Capital assets being depreciated, net	1,787,935	4,264,261	6,052,196	18,019,430
Total assets	11,988,568	10,719,762	22,708,330	27,296,999
Deferred outflows of resources				
Deferred pension amounts	896,195	27,717	923,912	199,237
Liabilities				
Payables and accrued liabilities	571,175	45,570	616,745	417,335
Unearned revenue	-	3,178	3,178	-
Long-term debt:				
Due within one year	38,932	495,000	533,932	654,316
Due in more than one year	155,730	975,000	1,130,730	913,355
Net pension liability	5,434,497	168,077	5,602,574	5,821,383
Net other postemployment benefits obligation	-	-	-	510,064
Total liabilities	6,200,334	1,686,825	7,887,159	8,316,453
Deferred inflows of resources				
Taxes levied for a subsequent period	1,328,182	744,207	2,072,389	729,000
Deferred pension amounts	525,179	16,243	541,422	-
Total deferred inflows of resources	1,853,361	760,450	2,613,811	729,000
Net position				
Net investment in capital assets	3,154,899	2,794,261	5,949,160	22,606,625
Restricted for:				
Public safety	874,091	-	874,091	-
Health and welfare	588,641	-	588,641	-
Community and economic development	797,140	-	797,140	-
Recreation and culture	400,052	-	400,052	-
Child support enforcement	84,596	-	84,596	-
Other state mandated programs	225,799	-	225,799	-
Unrestricted (deficit)	(1,294,150)	5,505,943	4,211,793	(4,155,842)
Total net position	\$ 4,831,068	\$ 8,300,204	\$ 13,131,272	\$ 18,450,783

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

KALKASKA COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2017

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 250,668	\$ -	\$ -	\$ -	\$ (250,668)
Judicial	1,194,858	614,679	311,913	-	(268,266)
General government	2,256,057	508,290	325,956	-	(1,421,811)
Public safety	4,217,027	1,154,590	336,076	-	(2,726,361)
Public works	119,001	36,429	31,202	-	(51,370)
Health and welfare	1,606,368	473,289	70,014	-	(1,063,065)
Community and economic development	200,387	16,470	-	-	(183,917)
Recreation and culture	659,105	207,682	20,144	13,357	(417,922)
Total governmental activities	10,503,471	3,011,429	1,095,305	13,357	(6,383,380)
Business-type activities:					
Tax collection	82,731	411,322	-	-	328,591
Sportsplex	876,271	273,386	854	-	(602,031)
Commissary	-	24,090	-	-	24,090
Total business-type activities	959,002	708,798	854	-	(249,350)
Total primary government	\$ 11,462,473	\$ 3,720,227	\$ 1,096,159	\$ 13,357	\$ (6,632,730)
Component unit					
Road Commission	\$ 5,748,379	\$ 121,946	\$ 4,490,598	\$ 2,376,720	\$ 1,240,885

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KALKASKA COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Changes in net position				
Net revenue (expense)	\$ (6,383,380)	\$ (249,350)	\$ (6,632,730)	\$ 1,240,885
General revenues:				
Property taxes	5,717,549	732,914	6,450,463	701,434
Convention facilities tax	63,432	-	63,432	-
State revenue sharing	356,278	-	356,278	-
Unrestricted investment earnings	32,066	17,044	49,110	-
Gain on sale of capital assets	-	-	-	128,400
Other revenue	230,178	-	230,178	-
Transfers - internal activities	10,416	(10,416)	-	-
Total general revenues and transfers	6,409,919	739,542	7,149,461	829,834
Change in net position	26,539	490,192	516,731	2,070,719
Net position beginning of year	4,804,529	7,810,012	12,614,541	16,380,064
Net position, end of year	\$ 4,831,068	\$ 8,300,204	\$ 13,131,272	\$ 18,450,783

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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, 2017

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,297,777	\$ 39,889	\$ 688,678	\$ 2,609,272	\$ 5,635,616
Receivables:					
Accounts	1,701	-	2,174	100,564	104,439
Taxes	363,847	-	751,929	563,237	1,679,013
Loans	-	757,251	-	-	757,251
Due from other governments	106,229	-	1,029	105,856	213,114
Prepays	178,358	-	6,060	14,583	199,001
Total assets	\$ 2,947,912	\$ 797,140	\$ 1,449,870	\$ 3,393,512	\$ 8,588,434
Liabilities					
Accounts payable	\$ 189,449	\$ -	\$ 176,235	\$ 39,582	\$ 405,266
Accrued liabilities	56,400	-	7,784	17,515	81,699
Due to other governments	-	-	-	84,210	84,210
Total liabilities	245,849	-	184,019	141,307	571,175
Deferred inflows of resources					
Taxes levied for a subsequent period	-	-	759,395	568,787	1,328,182
Unavailable revenue - loans receivable	-	757,251	-	-	757,251
Total deferred inflows of resources	-	757,251	759,395	568,787	2,085,433
Fund balances					
Nonspendable	178,358	-	6,060	14,583	199,001
Restricted	-	39,889	500,396	1,654,960	2,195,245
Committed	267,957	-	-	1,016,151	1,284,108
Assigned	629,714	-	-	-	629,714
Unassigned (deficit)	1,626,034	-	-	(2,276)	1,623,758
Total fund balances	2,702,063	39,889	506,456	2,683,418	5,931,826
Total liabilities, deferred inflows of resources and fund balances	\$ 2,947,912	\$ 797,140	\$ 1,449,870	\$ 3,393,512	\$ 8,588,434

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, 2017

Fund balances - total governmental funds	\$ 5,931,826
Amounts reported for <i>governmental activities</i> 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	1,366,964
Capital assets being depreciated, net	1,787,935
Certain assets do not represent current financial resources, and therefore are not reported in the funds.	
Net other postemployment benefits asset	245,235
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	757,251
Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.	
Compensated absences	(194,662)
Certain pension-related amounts, such as the net pension liability and 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	(5,434,497)
Deferred outflows related to the net pension liability	896,195
Deferred inflows related to the net pension liability	(525,179)
Net position of governmental activities	<u>\$ 4,831,068</u>

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, 2017

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 4,414,921	\$ -	\$ 744,930	\$ 557,698	\$ 5,717,549
Licenses and permits	39,366	-	-	265,027	304,393
Intergovernmental:					
Federal	142,845	-	2,294	165,613	310,752
State	897,417	-	872	279,588	1,177,877
Local	-	-	-	20,440	20,440
Charges for services	1,220,785	-	436,366	680,088	2,337,239
Fines and forfeitures	-	-	-	173,193	173,193
Interest	13,737	51	1,831	12,123	27,742
Rents	135,249	-	-	65,679	200,928
Donations	-	-	-	13,357	13,357
Other	98,428	22,724	-	114,972	236,124
Total revenues	6,962,748	22,775	1,186,293	2,347,778	10,519,594
Expenditures					
Current:					
Legislative	217,157	-	-	-	217,157
Judicial	901,691	-	-	224,150	1,125,841
General government	2,062,646	-	-	-	2,062,646
Public safety	2,688,244	-	-	1,207,678	3,895,922
Public works	98,243	-	-	141,258	239,501
Health and welfare	247,555	-	1,873,446	183,622	2,304,623
Community and economic development	159,661	938	-	-	160,599
Recreation and culture	-	-	-	622,454	622,454
Other functions	277,387	-	-	-	277,387
Total expenditures	6,652,584	938	1,873,446	2,379,162	10,906,130
Revenues over (under) expenditures	310,164	21,837	(687,153)	(31,384)	(386,536)
Other financing sources (uses)					
Transfers in	89,050	-	-	414,539	503,589
Transfers out	(414,539)	-	-	(78,634)	(493,173)
Total other financing sources (uses)	(325,489)	-	-	335,905	10,416
Net change in fund balances	(15,325)	21,837	(687,153)	304,521	(376,120)
Fund balances, beginning of year	2,717,388	18,052	1,193,609	2,378,897	6,307,946
Fund balances, end of year	\$ 2,702,063	\$ 39,889	\$ 506,456	\$ 2,683,418	\$ 5,931,826

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, 2017

Net change in fund balances - total governmental funds \$ (376,120)

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	1,046,041
Depreciation expense	(256,160)
Loss on the disposal of capital assets	(74,947)

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	(21,924)
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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	19,646
Change in the net pension liability and related deferred amounts	(307,714)
Change in the net other postemployment benefits asset	(2,283)

Change in net position of governmental activities \$ 26,539

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, 2017

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues				
Taxes	\$ 3,606,104	\$ 3,606,104	\$ 4,414,921	\$ 808,817
Licenses and permits	39,550	40,167	39,366	(801)
Intergovernmental:				
Federal	132,763	132,763	142,845	10,082
State	1,667,716	1,694,499	897,417	(797,082)
Charges for services	1,015,346	1,099,050	1,220,785	121,735
Interest	500	500	13,737	13,237
Rents	123,665	123,665	135,249	11,584
Other	58,970	79,041	98,428	19,387
Total revenues	6,644,614	6,775,789	6,962,748	186,959
Expenditures				
Current:				
Legislative	228,234	232,470	217,157	(15,313)
Judicial	918,058	902,467	901,691	(776)
General government	2,107,325	2,270,040	2,062,646	(207,394)
Public safety	2,585,954	2,710,901	2,688,244	(22,657)
Public works	103,037	109,937	98,243	(11,694)
Health and welfare	262,752	263,776	247,555	(16,221)
Community and economic development	177,505	171,722	159,661	(12,061)
Other functions	255,362	269,837	277,387	7,550
Total expenditures	6,638,227	6,931,150	6,652,584	(278,566)
Revenues over (under) expenditures	6,387	(155,361)	310,164	465,525
Other financing sources (uses)				
Transfers in	19,416	28,761	89,050	60,289
Transfers out	(170,966)	(356,971)	(414,539)	(57,568)
Total other financing sources (uses)	(151,550)	(328,210)	(325,489)	2,721
Net change in fund balance	(145,163)	(483,571)	(15,325)	468,246
Fund balance, beginning of year	2,717,388	2,717,388	2,717,388	-
Fund balance, end of year	\$ 2,572,225	\$ 2,233,817	\$ 2,702,063	\$ 468,246

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, 2017

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues				
Interest	\$ -	\$ -	\$ 51	\$ 51
Other	15,000	15,000	22,724	7,724
Total revenues	15,000	15,000	22,775	7,775
Expenditures				
Current:				
Community and economic development	15,000	17,500	938	(16,562)
Net change in fund balance	-	(2,500)	21,837	24,337
Fund balance, beginning of year	18,052	18,052	18,052	-
Fund balance, end of year	\$ 18,052	\$ 15,552	\$ 39,889	\$ 24,337

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, 2017

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues				
Taxes	\$ 737,581	\$ 737,581	\$ 744,930	\$ 7,349
Intergovernmental:				
Federal	-	-	2,294	2,294
State	-	-	872	872
Charges for services	435,000	435,000	436,366	1,366
Interest	-	-	1,831	1,831
Total revenues	1,172,581	1,172,581	1,186,293	13,712
Expenditures				
Current:				
Health and welfare	1,910,213	2,297,213	1,873,446	(423,767)
Net change in fund balance	(737,632)	(1,124,632)	(687,153)	437,479
Fund balance, beginning of year	1,193,609	1,193,609	1,193,609	-
Fund balance, end of year	\$ 455,977	\$ 68,977	\$ 506,456	\$ 437,479

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

KALKASKA COUNTY, MICHIGAN

Statement of Net Position
 Proprietary Funds
 December 31, 2017

	Business-type Activities - Enterprise Funds			
	Delinquent Tax	Sportsplex	Nonmajor Fund - Commissary	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,211,125	\$ 566,769	\$ 24,090	\$ 4,801,984
Receivables:				
Taxes	774,742	730,445	-	1,505,187
Due from other governments	23,579	-	-	23,579
Interest and administrative fees	120,589	-	-	120,589
Inventories	-	2,009	-	2,009
Prepays	-	2,153	-	2,153
Total current assets	5,130,035	1,301,376	24,090	6,455,501
Noncurrent assets:				
Advances to other funds	351,484	-	-	351,484
Capital assets being depreciated, net	-	4,264,261	-	4,264,261
Total noncurrent assets	351,484	4,264,261	-	4,615,745
Total assets	5,481,519	5,565,637	24,090	11,071,246
Deferred outflows of resources				
Deferred pension amounts	-	27,717	-	27,717
Liabilities				
Current liabilities:				
Accounts payable	11,414	18,561	-	29,975
Accrued liabilities	-	3,349	-	3,349
Accrued interest payable	-	12,246	-	12,246
Long-term debt, current portion	-	495,000	-	495,000
Unearned revenue	-	3,178	-	3,178
Total current liabilities	11,414	532,334	-	543,748
Noncurrent liabilities:				
Advances from other funds	-	351,484	-	351,484
Long-term debt, net of current portion	-	975,000	-	975,000
Net pension liability	-	168,077	-	168,077
Total noncurrent liabilities	-	1,494,561	-	1,494,561
Total liabilities	11,414	2,026,895	-	2,038,309
Deferred inflows of resources				
Taxes levied for a subsequent period	-	744,207	-	744,207
Deferred pension amounts	-	16,243	-	16,243
Total deferred inflows of resources	-	760,450	-	760,450
Net position				
Net investment in capital assets	-	2,794,261	-	2,794,261
Unrestricted	5,470,105	11,748	24,090	5,505,943
Total net position	\$ 5,470,105	\$ 2,806,009	\$ 24,090	\$ 8,300,204

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, 2017

	Business-type Activities - Enterprise Funds			
	Delinquent Tax	Sportsplex	Nonmajor Fund - Commissary	Total
Operating revenues				
Charges for services	\$ 231,938	\$ 273,386	\$ 24,090	\$ 529,414
Interest and penalties	179,384	-	-	179,384
Total operating revenues	411,322	273,386	24,090	708,798
Operating expenses				
Salaries	-	190,244	-	190,244
Fringe benefits	-	143,621	-	143,621
Depreciation	-	147,902	-	147,902
Other operating expenses	82,731	340,963	-	423,694
Total operating expenses	82,731	822,730	-	905,461
Operating income (loss)	328,591	(549,344)	24,090	(196,663)
Nonoperating revenues (expenses)				
Property taxes	-	732,914	-	732,914
State grant revenue	-	854	-	854
Interest revenue	16,058	986	-	17,044
Interest expense	-	(52,915)	-	(52,915)
Loss on disposal of capital assets	-	(626)	-	(626)
Total nonoperating revenues (expenses)	16,058	681,213	-	697,271
Income before transfers	344,649	131,869	24,090	500,608
Transfers				
Transfers out	(10,416)	-	-	(10,416)
Change in net position	334,233	131,869	24,090	490,192
Net position, beginning of year	5,135,872	2,674,140	-	7,810,012
Net position, end of year	\$ 5,470,105	\$ 2,806,009	\$ 24,090	\$ 8,300,204

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, 2017

	Business-type Activities - Enterprise Funds			
	Delinquent Tax	Sportsplex	Nonmajor Fund - Commissary	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 2,356,746	\$ 276,564	\$ 24,090	\$ 2,657,400
Payments to vendors	(71,350)	(341,594)	-	(412,944)
Payments for personnel services	-	(254,813)	-	(254,813)
Delinquent taxes purchased	(1,864,153)	-	-	(1,864,153)
Net cash provided by (used in) operating activities	421,243	(319,843)	24,090	125,490
Cash flows from noncapital financing activities				
Local tax levy received	-	737,970	-	737,970
State grants received	-	854	-	854
Payments to other funds	(10,416)	-	-	(10,416)
Net cash provided by (used in) noncapital financing activities	(10,416)	738,824	-	728,408
Cash flows from capital and related financing activities				
Purchase of capital assets	-	(99,240)	-	(99,240)
Principal paid on long-term debt	-	(450,000)	-	(450,000)
Interest paid on long-term debt	-	(56,571)	-	(56,571)
Net cash used in capital and related financing activities	-	(605,811)	-	(605,811)
Cash flows from investing activities				
Interest received	16,058	986	-	17,044
Net increase (decrease) in cash and cash equivalents	426,885	(185,844)	24,090	265,131
Cash and cash equivalents, beginning of year	3,784,240	752,613	-	4,536,853
Cash and cash equivalents, end of year	\$ 4,211,125	\$ 566,769	\$ 24,090	\$ 4,801,984
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 328,591	\$ (549,344)	\$ 24,090	\$ (196,663)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	-	147,902	-	147,902
Change in operating assets, deferred outflows/inflows of resources and liabilities that provided (used) cash:				
Taxes receivable	66,726	-	-	66,726
Due from other governments	2,087	-	-	2,087
Interest receivable	12,458	-	-	12,458
Prepays	-	932	-	932
Accounts payable	11,381	(1,563)	-	9,818
Accrued liabilities	-	(185)	-	(185)
Unearned revenue	-	3,178	-	3,178
Net other postemployment benefits asset	-	19,689	-	19,689
Net pension liability and related deferred amounts	-	59,548	-	59,548
Net cash provided by (used in) operating activities	\$ 421,243	\$ (319,843)	\$ 24,090	\$ 125,490

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

KALKASKA COUNTY, MICHIGAN

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2017

	Agency Funds	Other Post- employment Benefits Trust
Assets		
Cash and cash equivalents	\$ 157,573	\$ 2,496
Investments:		
Money market funds	-	22,849
Equity mutual funds	-	200,152
Certificates of deposit	-	29,319
Total assets	<u>\$ 157,573</u>	<u>254,816</u>
Liabilities		
Undistributed collections	\$ 83,376	\$ -
Other liabilities	74,197	-
Total liabilities	<u>\$ 157,573</u>	<u>-</u>
Net position restricted for		
Other postemployment benefits		<u>\$ 254,816</u>

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, 2017

Additions	
Employer contributions	\$ 38,601
Investment gain	<u>7,612</u>
Total additions	46,213
Deductions	
Benefit payments	<u>71,423</u>
Change in net position	(25,210)
Net position, beginning of year	<u>280,026</u>
Net position, end of year	<u><u>\$ 254,816</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 \$160,070 to the Community Mental Health for the year ended December 31, 2017.

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, 2017 the funding was 28.8%, 28.3%, and 42.9% 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 \$80,699 to the Court for the year ended December 31, 2017.

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.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Receivables and Payables

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

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

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

Other Assets

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

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

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.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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.

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 investment returns, assumptions, and benefits provided in its pension plan.

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.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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 related to the net pension liability.

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 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.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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 Plan. 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.

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.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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.

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, 2017, the County incurred expenditures which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
Judicial:			
Judicial control	\$ 802,789	\$ 813,101	\$ 10,312
General government:			
County government	266,107	287,660	21,553
Public safety:			
Law enforcement	784,632	818,604	33,972
Township deputies	169,150	173,057	3,907
Domestic violence grant	17,870	20,301	2,431
Marine law enforcement	5,800	6,499	699
Snowmobile law enforcement	9,208	15,146	5,938
Secondary road patrol PA 416 grant	88,274	92,924	4,650
Zero tolerance	32,956	34,132	1,176
Other:			
Fringe	229,375	237,101	7,726
Other financing uses:			
Transfers out	356,971	414,539	57,568
911 central dispatch fund:			
Transfers out	14,000	78,634	64,634
Recycling fund:			
Public works	110,006	141,258	31,252
Animal control fund:			
Public safety	126,888	127,229	341
Law library fund:			
Judicial	8,000	8,163	163
Inmate programs & services fund:			
Health and welfare	2,580	2,827	247
Veteran's trust fund:			
Health and welfare	1,676	2,081	405

Deficit Fund Balance

At December 31, 2017 the County reported deficit unassigned fund balance in the Animal Control and Child Care special revenue funds of \$1,201 and \$1,075, respectively.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2017:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 10,437,600	\$ 2,180,363	\$ 12,617,963
Statement of Fiduciary Net Position			
Other postemployment benefit trust fund:			
Cash and cash equivalents	2,496	-	2,496
Investments	252,320	-	252,320
Agency funds:			
Cash and cash equivalents	157,573	-	157,573
Total	\$ 10,849,989	\$ 2,180,363	\$ 13,030,352

Deposits and investments

Primary Government

Bank deposits:

Checking and savings accounts (pooled)	\$ 7,943,182
Other checking and savings	763,855
Certificates of deposit:	
Due within one year	644,591
Due in one to five years	681,653

Investments

557,123

Other postemployment benefit trust fund:

Checking and savings accounts (pooled)	2,496
Investments	252,320

Cash on hand

4,769

Total Primary Government

10,849,989

Road Commission Component Unit

Bank deposits:

Checking and savings accounts	930,113
Certificates of deposit, due within one year	1,250,000

Cash on hand

250

Total Road Commission Component Unit

2,180,363

Total deposits and investments

\$ 13,030,352

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.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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, \$8,397,409 of the bank balance (excluding Road Commission) of \$10,348,729 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, 2017, 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	\$ 305,657
S&P A1 (Commercial Paper)	<u>251,466</u>
Total	<u>\$ 557,123</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, 2017:

	Level 1	Level 2	Level 3	Total
Commercial paper	\$ -	\$ 251,466	\$ -	\$ 251,466
Investments carried at amortized cost:				
Government investment pool				305,657
				<u>\$ 557,123</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.

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, 2017:

	Interest Rate	Maturity	Morningstar Rating	Market Value
Mutual funds:				
Money market funds	0.04%	n/a	n/a	\$ 22,849
Equity funds:				
High income	n/a	n/a	★	19,780
Balanced income	n/a	n/a	★★★★★	35,953
Real asset income	n/a	n/a	★★★	45,503
Short-term income	n/a	n/a	★★★	98,916
Certificates of deposit	0.40%	1/27/2021	n/a	<u>29,319</u>
				<u>\$ 252,320</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, 2017 was \$22,849, 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, 2017 was \$29,319, 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	\$ 104,439	\$ -	\$ 15,206
Taxes - current	1,679,013	730,445	721,500
Taxes - delinquent	-	774,742	-
Interest and administrative fees	-	120,589	-
Loans	757,251	-	-
Due from other governments	213,114	23,579	705,549
	<u>\$ 2,753,817</u>	<u>\$ 1,649,355</u>	<u>\$ 1,442,255</u>

Of the amount reported above for loans receivable in governmental activities, \$755,419 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	\$ 405,266	\$ 29,975	\$ 298,301
Accrued liabilities	81,699	3,349	77,258
Accrued interest payable	-	12,246	22,488
Due to other governments	84,210	-	19,288
	<u>\$ 571,175</u>	<u>\$ 45,570</u>	<u>\$ 417,335</u>

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund advances as of December 31, 2017, 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, 2017, interfund transfers consisted of the following:

Transfers Out	Transfers in		
	General fund	Nonmajor governmental funds	Totals
General fund	\$ -	\$ 414,539	\$ 414,539
Nonmajor governmental funds	78,634	-	78,634
Delinquent tax fund	10,416	-	10,416
	<u>\$ 89,050</u>	<u>\$ 414,539</u>	<u>\$ 503,589</u>

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

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2017, 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	-	-	914,443
	<u>452,521</u>	<u>914,443</u>	<u>-</u>	<u>-</u>	<u>1,366,964</u>
Capital assets, being depreciated:					
Buildings and improvements	6,539,497	14,175	(210,999)	-	6,342,673
Land improvements	597,651	-	(155,774)	-	441,877
Machinery and equipment	3,346,122	117,423	(699,721)	-	2,763,824
	<u>10,483,270</u>	<u>131,598</u>	<u>(1,066,494)</u>	<u>-</u>	<u>9,548,374</u>
Less accumulated depreciation for:					
Buildings and improvements	(5,192,896)	(116,760)	170,620	-	(5,139,036)
Land improvements	(510,168)	(9,014)	150,025	-	(369,157)
Machinery and equipment	(2,792,762)	(130,386)	670,902	-	(2,252,246)
	<u>(8,495,826)</u>	<u>(256,160)</u>	<u>991,547</u>	<u>-</u>	<u>(7,760,439)</u>
Total capital assets being depreciated, net	<u>1,987,444</u>	<u>(124,562)</u>	<u>(74,947)</u>	<u>-</u>	<u>1,787,935</u>
Governmental activities capital assets, net	<u>\$ 2,439,965</u>	<u>\$ 789,881</u>	<u>\$ (74,947)</u>	<u>\$ -</u>	<u>\$ 3,154,899</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	\$ 6,629,749	\$ -	\$ (32,815)	\$ -	\$ 6,596,934
Furniture, fixtures & equipment	291,955	99,240	(117,229)	-	273,966
	<u>6,921,704</u>	<u>99,240</u>	<u>(150,044)</u>	<u>-</u>	<u>6,870,900</u>
Less accumulated depreciation for:					
Buildings and improvements	(2,338,130)	(134,488)	32,367	-	(2,440,251)
Furniture, fixtures & equipment	(270,025)	(13,414)	117,051	-	(166,388)
	<u>(2,608,155)</u>	<u>(147,902)</u>	<u>149,418</u>	<u>-</u>	<u>(2,606,639)</u>
Total capital assets being depreciated, net	<u>\$ 4,313,549</u>	<u>\$ (48,662)</u>	<u>\$ (626)</u>	<u>\$ -</u>	<u>\$ 4,264,261</u>

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

Depreciation of governmental activities by function

Legislative	\$ 29,762
Judicial	13,536
General government	27,302
Public safety	119,445
Public works	5,314
Health and welfare	37,468
Community and economic development	2,232
Recreation and culture	21,101
	<u>\$ 256,160</u>

Depreciation of business-type activities by function

Enterprise funds:	
Sportsplex	<u>\$ 147,902</u>

Construction Commitments

As of December 31, 2017, the County had outstanding commitments related to construction projects of \$502,059.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 214,308	\$ 23,216	\$ (42,862)	\$ 194,662	\$ 38,932
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	\$ 1,920,000	\$ -	\$ (450,000)	\$ 1,470,000	\$ 495,000

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

Year Ended December 31,	Business-type Activities	
	Principal	Interest
2018	\$ 495,000	\$ 41,560
2019	490,000	25,805
2020	485,000	8,738
	<u>\$ 1,470,000</u>	<u>\$ 76,103</u>

The compensated absence and net pension liability 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

Notes to Financial Statements

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, 2017, 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 2017, for which revenue was recognized in the general fund, was \$759,394,497. The general operating tax rate for this levy was 5.4562 mills. The taxable value of real and personal property for 2016, for which revenue was recognized in all other funds, was \$739,361,055. 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, 2016 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	80
Inactive employees entitled to but not yet receiving benefits	29
Active employees	<u>93</u>
Total membership	<u><u>202</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, 2017:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
New Hires	Hybrid	Open	7.26%	0.00%
Teamsters	Defined Benefit	Closed	\$ 4,803	2.00%
Law Enforcement	Defined Benefit	Closed	31,102	0.00%
Commission on Aging	Defined Benefit	Closed	1,500	3% - 5%
Admin / Dept Heads	Defined Benefit	Closed	9,427	1.00%
Court Division	Defined Benefit	Closed	5,845	3.00%

Net Pension Liability. The County's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016.

Actuarial Assumptions. The total pension liability in the December 31, 2016 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

Notes to Financial Statements

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
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.51%
Diversifying strategies	<u>10.00%</u>	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2016 was 8.0% (down from 8.25% in 2015). 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, 2016	\$ 20,842,096	\$ 14,283,308	6,558,788
Changes for the year:			
Service cost	321,174	-	321,174
Interest	1,630,256	-	1,630,256
Differences between expected and actual experience	(306,667)	-	(306,667)
Employer contributions	-	745,157	(745,157)
Employee contributions	-	21,600	(21,600)
Net investment income	-	1,871,410	(1,871,410)
Benefit payments, including refunds of employee contributions	(1,248,962)	(1,248,962)	-
Administrative expense	-	(29,652)	29,652
Other changes	7,538	-	7,538
Net changes	403,339	1,359,553	(956,214)
Balances at December 31, 2017	\$ 21,245,435	\$ 15,642,861	\$ 5,602,574

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	\$ 8,021,770	\$ 5,602,574	\$ 3,568,611

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

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, 2017, the County recognized pension expense of \$1,112,419. 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	\$ 320,307	\$ 230,000	\$ 90,307
Changes in assumptions	603,605	-	603,605
Net difference between projected and actual earnings on pension plan investments	-	311,422	(311,422)
Total	\$ 923,912	\$ 541,422	\$ 382,490

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
2018	\$ 267,590
2019	267,589
2020	(2,846)
2021	(149,843)
Total	\$ 382,490

Payable to the Pension Plan. At December 31, 2017, the County reported a payable of \$76,385 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017.

15. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

Plan Administration. The Kalkaska County Retiree Medical Plan is a single-employer defined benefit healthcare plan administered by Kalkaska County and can be amended at its discretion. The Plan provides postemployment health care benefits to employees who retired from Kalkaska County. Eligibility is based on the following: Commission on Aging, Kaliseum and other Teamsters may be eligible at age 55 with 25 years of service or age 60 with 15 years of service. Sheriff employees may be eligible with 25 years of service or age 60 with 15 years of service.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Plan Membership. At December 31, 2017, OPEB plan membership consisted of the following:

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

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

Net OPEB Liability of the County

The components of the net OPEB liability of the County at December 31, 2017, were as follows:

Total OPEB liability	\$ 1,234,506
Plan fiduciary net position	<u>254,816</u>
County's net OPEB liability	<u><u>\$ 979,690</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	20.6%

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Changes in Net OPEB Liability

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at December 31, 2016	\$ 513,932	\$ 280,026	\$ 233,906
Changes for the year:			
Service cost	19,557	-	19,557
Interest	23,695	-	23,695
Differences between expected and actual experience	56,941	-	56,941
Changes in assumptions	691,804	-	691,804
Employer contributions	-	38,601	(38,601)
Net investment income	-	7,612	(7,612)
Benefit payments, including refunds of employee contributions	(71,423)	(71,423)	-
Net changes	<u>720,574</u>	<u>(25,210)</u>	<u>745,784</u>
Balances at December 31, 2017	<u>\$ 1,234,506</u>	<u>\$ 254,816</u>	<u>\$ 979,690</u>

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 – 1.5%

Investment rate of return – 4.76%, 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.

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.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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

Health insurance premiums – 2017 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.

Investments

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, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 4.76 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
Cash and cash alternatives	10.0%	1.00%	0.10%
Investment grade short maturity fixed income	40.0%	4.14%	1.65%
Noninvestment grade fixed income	10.0%	5.86%	0.59%
Allocation strategies	10.0%	5.16%	0.52%
World allocation strategies	30.0%	6.35%	1.90%
	100.0%		
Investment rate of return			4.76%

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

Discount Rate. The blended discount rate used to measure the total OPEB liability was 4.76%. 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. This discount rate is used to determine the Total OPEB Liability. December 31, 2017 is the first year of required compliance with GASB 74, so there is no required discount rate change to disclose.

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 4.76%, as well as what the County’s net OPEB liability would be if it were calculated using a discount rate that is 1% lower (3.76%) or 1% higher (5.76%) than the current rate:

1% Decrease (3.76%)	Current Discount Rate (4.76%)	1% Increase (5.76%)
\$ 1,070,319	\$ 979,690	\$ 899,148

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%)
\$ 920,620	\$ 979,690	\$ 1,048,960

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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

Annual required contribution	\$ 38,601
Interest on net OPEB asset	(10,688)
Adjustment to annual required contribution	<u>32,660</u>
Net OPEB cost (expense)	60,573
Contributions made	<u>(38,601)</u>
Change in net OPEB asset	21,972
Net OPEB asset, beginning of year	<u>(267,207)</u>
Net OPEB asset, end of year	<u>\$ (245,235)</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for 2017 and the previous two years were as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
2015	\$ 51,837	119.61%	\$ (260,009)
2016	54,802	113.13%	(267,207)
2017	60,573	63.73%	(245,235)

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

Funded Status and Funding Progress. As of December 31, 2016, the date of the most recent actuarial valuation, the Plan was 52.5% percent funded. The actuarial accrued liability for benefits was \$485,721, and the actuarial value of assets was \$254,816 resulting in an unfunded actuarial accrued liability (UAAL) of \$230,905. The covered payroll (annual payroll of active employees covered by the Plan) was \$2,083,575, and the UAAL as a percentage of covered payroll was 11.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, expected future working life and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

KALKASKA COUNTY, MICHIGAN

Notes to Financial Statements

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

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

The December 31, 2017 valuation was based on a discount rate of 4 percent. The actuarial assumptions included a post-retirement interest rate of 4 percent, annual healthcare cost increase of 8% for 2016 graded down to an ultimate rate of 5%, annual cost increase for dental and vision benefits of 3%. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2017 was 8 years.

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	\$ 178,358	\$ -	\$ 6,060	\$ 14,583	\$ 199,001
Restricted for:					
Judicial	-	-	-	83,953	83,953
Public safety	-	-	-	866,967	866,967
Community and economic development	-	39,889	-	222,903	262,792
Health and welfare	-	-	500,396	81,635	582,031
Recreation and culture	-	-	-	399,502	399,502
Total restricted	-	39,889	500,396	1,654,960	2,195,245
Committed for:					
Public safety	1,544	-	-	20,240	21,784
Self-insurance	19,256	-	-	-	19,256
Technology	140,050	-	-	-	140,050
Elections	58,244	-	-	-	58,244
Capital improvements	-	-	-	731,463	731,463
Historic preservation	-	-	-	227,350	227,350
Equipment replacement	18,962	-	-	-	18,962
Other purposes	29,901	-	-	37,098	66,999
Total committed	267,957	-	-	1,016,151	1,284,108
Assigned for:					
Unfunded retirement	355,000	-	-	-	355,000
Long-term technology	85,000	-	-	-	85,000
Appropriated fund balance	189,714	-	-	-	189,714
Total assigned	629,714	-	-	-	629,714
Unassigned (deficit)	1,626,034	-	-	(2,276)	1,623,758
Total fund balances, governmental funds	\$ 2,702,063	\$ 39,889	\$ 506,456	\$ 2,683,418	\$ 5,931,826

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, 2017, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 1,366,964	\$ -	\$ 5,223,018
Capital assets being depreciated, net	1,787,935	4,264,261	18,019,430
	<u>3,154,899</u>	<u>4,264,261</u>	<u>23,242,448</u>
Related debt:			
Total bonds and loans payable	-	1,470,000	-
Capital leases	-	-	635,823
	<u>-</u>	<u>1,470,000</u>	<u>635,823</u>
Net investment in capital assets	<u>\$ 3,154,899</u>	<u>\$ 2,794,261</u>	<u>\$ 22,606,625</u>



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

Notes:

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

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%

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

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%

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 (2017, based on 12/31/2015 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll
Remaining amortization period	10 years
Asset valuation method	Open; 10-year smooth market
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 Benefits Plan Primary Government

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2012	-	533,923	533,923	0.0%	3,156,876	16.9%
12/31/2015	259,523	549,566	290,043	47.2%	n/a	n/a
12/31/2017	254,816	485,721	230,905	52.5%	2,083,575	11.1%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2015	49,934	124.2%
2016	41,870	148.1%
2017	38,601	100.0%

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
Total OPEB liability	
Service cost	\$ 19,557
Interest	23,695
Differences between expected and actual experience	56,941
Changes in assumptions	691,804
Benefit payments, including refunds of employee contributions	(71,423)
Net change in total OPEB liability	<u>720,574</u>
Total OPEB liability, beginning of year	<u>513,932</u>
Total OPEB liability, end of year	<u>1,234,506</u>
Plan fiduciary net position	
Employer contributions	38,601
Net investment income	7,612
Benefit payments, including refunds of employee contributions	(71,423)
Net change in plan fiduciary net position	<u>(25,210)</u>
Plan fiduciary net position, beginning of year	<u>280,026</u>
Plan fiduciary net position, end of year	<u>254,816</u>
County's net OPEB liability	<u>\$ 979,690</u>
Plan fiduciary net position as a percentage of total OPEB liability	20.6%
Covered payroll	\$ 2,083,575
County's net OPEB liability as a percentage of covered payroll	47.0%

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

Note: Assumption changes for December 31, 2017 valuation:

- Discount rate and return on assets changed from 4.0% to 4.76%.
- Mortality updated to 2018 rates.
- Pre-65 trend rates updated from 7.0% graded to 5.0% over 4 years to 8.0% graded down 0.5% per year for 6 years.
- Implicit subsidy 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%

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%

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 December 31, 2017

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.
Health care 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%

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

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

KALKASKA COUNTY, MICHIGAN

Schedule of Expenditures by Activity

Budget and Actual

General Fund

For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Legislative:				
County board	\$ 228,234	\$ 232,470	\$ 217,157	\$ (15,313)
Judicial:				
Judicial control	880,758	802,789	813,101	10,312
46th circuit trial court/ friend of the court	31,000	92,213	81,591	(10,622)
Jury board	6,300	7,465	6,999	(466)
Total judicial	918,058	902,467	901,691	(776)
General government:				
Elections	28,300	30,269	15,135	(15,134)
County clerk	252,456	277,836	239,669	(38,167)
Equalization	143,372	147,597	145,871	(1,726)
Prosecuting attorney	400,589	416,659	377,682	(38,977)
Register of deeds	201,967	194,917	175,113	(19,804)
Survey Remonumentation	33,426	33,426	33,426	-
Treasurer	207,570	194,020	182,668	(11,352)
County government	165,075	266,107	287,660	21,553
Building and grounds	402,658	434,704	414,439	(20,265)
Various accounts	111,016	111,016	36,177	(74,839)
Liability insurance	160,896	163,489	154,806	(8,683)
Total general government	2,107,325	2,270,040	2,062,646	(207,394)
Public safety:				
Law enforcement	762,232	784,632	818,604	33,972
Sheriff fleet	141,321	146,177	132,923	(13,254)
Court civil transports	106,615	81,615	67,259	(14,356)
Administration	350,436	357,636	349,424	(8,212)
Township deputies	152,650	169,150	173,057	3,907
Community corrections	70,918	74,102	66,322	(7,780)
Domestic violence grant	17,670	17,870	20,301	2,431
OHSP grant	9,600	9,600	6,472	(3,128)
Marine law enforcement	5,800	5,800	6,499	699
Snowmobile law enforcement	8,260	9,208	15,146	5,938
Secondary road patrol PA 416 grant	84,574	88,274	92,924	4,650
DNR ORV grant	13,414	35,000	24,800	(10,200)
Zero tolerance	32,156	32,956	34,132	1,176
Hunters safety class	-	-	(856)	(856)
Corrections Department/Jail	810,668	850,314	834,988	(15,326)
Emergency preparedness	19,640	19,565	17,248	(2,317)
Vehicle replacement	-	29,002	29,001	(1)
Total public safety	2,585,954	2,710,901	2,688,244	(22,657)

continued...

KALKASKA COUNTY, MICHIGAN

Schedule of Expenditures by Activity Budget and Actual General Fund For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public works:				
Public works	\$ 103,037	\$ 109,937	\$ 98,243	\$ (11,694)
Health and welfare:				
Health department	220,232	220,403	209,070	(11,333)
Veteran's affairs	42,520	43,373	38,485	(4,888)
Total health and welfare	<u>262,752</u>	<u>263,776</u>	<u>247,555</u>	<u>(16,221)</u>
Community and economic development:				
Zoning	95,334	96,951	92,714	(4,237)
MSU extension	82,171	74,771	66,947	(7,824)
Total community and economic development	<u>177,505</u>	<u>171,722</u>	<u>159,661</u>	<u>(12,061)</u>
Other:				
Fringe	214,900	229,375	237,101	7,726
Other appropriation	40,462	40,462	40,286	(176)
Total other	<u>255,362</u>	<u>269,837</u>	<u>277,387</u>	<u>7,550</u>
Total expenditures	<u>\$ 6,638,227</u>	<u>\$ 6,931,150</u>	<u>\$ 6,652,584</u>	<u>\$ (278,566)</u>

concluded

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2017

	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	\$ 9,563	\$ 34,532	\$ 4,713	\$ 3,208	\$ 49,285	\$ 103,665
Receivables:						
Accounts	-	-	-	-	-	-
Taxes	-	-	-	-	-	-
Due from other governments	-	-	-	-	39,091	-
Prepays	-	-	-	-	643	-
Total assets	<u>\$ 9,563</u>	<u>\$ 34,532</u>	<u>\$ 4,713</u>	<u>\$ 3,208</u>	<u>\$ 89,019</u>	<u>\$ 103,665</u>
Liabilities						
Accounts payable	\$ 1,100	\$ 1,333	\$ 774	\$ -	\$ 1,864	\$ -
Accrued liabilities	-	-	40	-	2,559	-
Due to other governments	-	-	-	-	-	-
Total liabilities	<u>1,100</u>	<u>1,333</u>	<u>814</u>	<u>-</u>	<u>4,423</u>	<u>-</u>
Deferred inflows of resources						
Taxes levied for a subsequent period	-	-	-	-	-	-
Fund balances						
Nonspendable	-	-	-	-	643	-
Restricted	8,463	-	-	3,208	83,953	103,665
Committed	-	33,199	3,899	-	-	-
Unassigned (deficit)	-	-	-	-	-	-
Total fund balances	<u>8,463</u>	<u>33,199</u>	<u>3,899</u>	<u>3,208</u>	<u>84,596</u>	<u>103,665</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,563</u>	<u>\$ 34,532</u>	<u>\$ 4,713</u>	<u>\$ 3,208</u>	<u>\$ 89,019</u>	<u>\$ 103,665</u>

Special Revenue Funds

Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/Technology	Recycling	Corrections Officers Training
\$ 227,350	\$ 7,697	\$ 227,051	\$ 478,965	\$ 106,017	\$ 18,655	\$ 9,817
-	-	-	100,564	-	-	-
-	-	-	-	-	87,225	-
-	-	-	33,945	-	31,202	-
-	-	2,896	6,486	-	550	-
<u>\$ 227,350</u>	<u>\$ 7,697</u>	<u>\$ 229,947</u>	<u>\$ 619,960</u>	<u>\$ 106,017</u>	<u>\$ 137,632</u>	<u>\$ 9,817</u>
\$ -	\$ -	\$ 1,951	\$ 14,562	\$ 4,393	\$ 1,499	\$ -
-	-	2,197	6,173	-	1,363	-
-	-	-	-	-	-	-
-	-	4,148	20,735	4,393	2,862	-
-	-	-	-	-	88,090	-
-	-	2,896	6,486	-	550	-
-	-	222,903	592,739	101,624	46,130	9,817
227,350	7,697	-	-	-	-	-
-	-	-	-	-	-	-
<u>227,350</u>	<u>7,697</u>	<u>225,799</u>	<u>599,225</u>	<u>101,624</u>	<u>46,680</u>	<u>9,817</u>
<u>\$ 227,350</u>	<u>\$ 7,697</u>	<u>\$ 229,947</u>	<u>\$ 619,960</u>	<u>\$ 106,017</u>	<u>\$ 137,632</u>	<u>\$ 9,817</u>

continued...

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2017

	Special Revenue Funds					
	Animal Control	Law Library	Concealed Pistol Licensing	County Library	Soil Conservation	Inmate Programs & Services
Assets						
Cash and cash equivalents	\$ 3,970	\$ 94	\$ 25,896	\$ 407,697	\$ 1,828	\$ 35,505
Receivables:						
Accounts	-	-	-	-	-	-
Taxes	100,008	-	-	187,983	188,021	-
Due from other governments	-	-	-	-	-	-
Prepays	1,839	-	-	550	-	-
Total assets	\$ 105,817	\$ 94	\$ 25,896	\$ 596,230	\$ 189,849	\$ 35,505
Liabilities						
Accounts payable	\$ 2,897	\$ -	\$ -	\$ 3,724	\$ -	\$ -
Accrued liabilities	1,283	-	-	2,699	-	-
Due to other governments	-	-	-	-	-	-
Total liabilities	4,180	-	-	6,423	-	-
Deferred inflows of resources						
Taxes levied for a subsequent period	100,999	-	-	189,849	189,849	-
Fund balances						
Nonspendable	1,839	-	-	550	-	-
Restricted	-	94	25,896	399,408	-	35,505
Committed	-	-	-	-	-	-
Unassigned (deficit)	(1,201)	-	-	-	-	-
Total fund balances	638	94	25,896	399,958	-	35,505
Total liabilities, deferred inflows of resources and fund balances	\$ 105,817	\$ 94	\$ 25,896	\$ 596,230	\$ 189,849	\$ 35,505

Special Revenue Funds				Capital Project Funds		
TNT Drug Awareness	Child Care	Veterans Trust	Marine Clearwater Township	County Building	County Library Building	Total
\$ 12,543	\$ 87,905	\$ -	\$ 21,555	\$ 316,000	\$ 415,761	\$ 2,609,272
-	-	-	-	-	-	100,564
-	-	-	-	-	-	563,237
-	1,618	-	-	-	-	105,856
-	1,619	-	-	-	-	14,583
<u>\$ 12,543</u>	<u>\$ 91,142</u>	<u>\$ -</u>	<u>\$ 21,555</u>	<u>\$ 316,000</u>	<u>\$ 415,761</u>	<u>\$ 3,393,512</u>
\$ -	\$ 5,187	\$ -	\$ -	\$ -	\$ 298	\$ 39,582
-	1,201	-	-	-	-	17,515
-	84,210	-	-	-	-	84,210
-	90,598	-	-	-	298	141,307
-	-	-	-	-	-	568,787
-	1,619	-	-	-	-	14,583
-	-	-	21,555	-	-	1,654,960
12,543	-	-	-	316,000	415,463	1,016,151
-	(1,075)	-	-	-	-	(2,276)
<u>12,543</u>	<u>544</u>	<u>-</u>	<u>21,555</u>	<u>316,000</u>	<u>415,463</u>	<u>2,683,418</u>
<u>\$ 12,543</u>	<u>\$ 91,142</u>	<u>\$ -</u>	<u>\$ 21,555</u>	<u>\$ 316,000</u>	<u>\$ 415,761</u>	<u>\$ 3,393,512</u>

concluded

KALKASKA COUNTY, MICHIGAN

**Combining Statement of Revenues, Expenditures
and Change in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2017**

	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	700	-	-	-	164,913	-
State	-	-	-	-	22,115	-
Local	-	-	-	-	9,440	-
Charges for services	-	8,998	1,890	-	30,405	-
Fines and forfeitures	-	-	-	-	-	-
Interest	15	47	5	5	60	121
Rents	-	34,177	31,502	-	-	-
Donations	-	-	-	-	-	-
Other	-	-	40	500	-	26,744
Total revenues	715	43,222	33,437	505	226,933	26,865
Expenditures						
Current:						
Judicial	-	-	-	-	213,864	-
Public safety	5,757	470	-	3,710	-	1,915
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	34,345	30,982	-	-	-
Total expenditures	5,757	34,815	30,982	3,710	213,864	1,915
Revenues over (under) expenditures	(5,042)	8,407	2,455	(3,205)	13,069	24,950
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in fund balances	(5,042)	8,407	2,455	(3,205)	13,069	24,950
Fund balances, beginning of year	13,505	24,792	1,444	6,413	71,527	78,715
Fund balances, end of year	\$ 8,463	\$ 33,199	\$ 3,899	\$ 3,208	\$ 84,596	\$ 103,665

Special Revenue Funds						
Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/Technology	Recycling	Corrections Officers Training
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,311	\$ -
-	-	265,027	-	-	-	-
-	-	-	-	-	-	-
-	-	-	146,809	-	31,303	-
-	-	-	-	-	-	-
-	-	-	543,026	-	36,429	5,640
50,169	-	-	-	-	-	-
269	9	275	2,712	-	88	11
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	7,906	-	-	47,723	-	-
50,438	7,915	265,302	692,547	47,723	154,131	5,651
2,123	-	-	-	-	-	-
-	4,343	204,590	836,145	21,530	-	1,989
-	-	-	-	-	141,258	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,123	4,343	204,590	836,145	21,530	141,258	1,989
48,315	3,572	60,712	(143,598)	26,193	12,873	3,662
-	-	-	-	-	-	-
-	-	-	(78,634)	-	-	-
-	-	-	(78,634)	-	-	-
48,315	3,572	60,712	(222,232)	26,193	12,873	3,662
179,035	4,125	165,087	821,457	75,431	33,807	6,155
\$ 227,350	\$ 7,697	\$ 225,799	\$ 599,225	\$ 101,624	\$ 46,680	\$ 9,817

continued...

KALKASKA COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures
and Change in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2017

	Special Revenue Funds					
	Animal Control	Law Library	Concealed Pistol Licensing	County Library	Soil Conservation	Inmate Programs & Services
Revenues						
Taxes	\$ 98,953	\$ -	\$ -	\$ 186,121	\$ 186,313	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental:						
Federal	-	-	-	-	-	-
State	116	-	-	20,322	-	-
Local	-	2,500	-	-	-	-
Charges for services	11,801	-	10,725	8,091	-	23,083
Fines and forfeitures	-	-	-	123,024	-	-
Interest	31	-	28	1,951	-	35
Rents	-	-	-	-	-	-
Donations	-	-	-	-	-	-
Other	-	-	-	46	-	-
Total revenues	110,901	2,500	10,753	339,555	186,313	23,118
Expenditures						
Current:						
Judicial	-	8,163	-	-	-	-
Public safety	127,229	-	-	-	-	-
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	2,827
Recreation and culture	-	-	-	293,827	186,313	-
Total expenditures	127,229	8,163	-	293,827	186,313	2,827
Revenues over (under) expenditures	(16,328)	(5,663)	10,753	45,728	-	20,291
Other financing sources (uses)						
Transfers in	12,500	5,750	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	12,500	5,750	-	-	-	-
Net change in fund balances	(3,828)	87	10,753	45,728	-	20,291
Fund balances, beginning of year	4,466	7	15,143	354,230	-	15,214
Fund balances, end of year	\$ 638	\$ 94	\$ 25,896	\$ 399,958	\$ -	\$ 35,505

Special Revenue Funds				Capital Project Funds		Total
TNT Drug Awareness	Child Care	Veterans Trust	Marine Clearwater Township	County Building	County Library Building	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 557,698
-	-	-	-	-	-	265,027
-	-	-	-	-	-	165,613
-	58,923	-	-	-	-	279,588
-	-	2,000	6,500	-	-	20,440
-	-	-	-	-	-	680,088
-	-	-	-	-	-	173,193
17	12	2	26	295	6,109	12,123
-	-	-	-	-	-	65,679
-	-	-	-	-	13,357	13,357
-	-	-	-	32,013	-	114,972
<u>17</u>	<u>58,935</u>	<u>2,002</u>	<u>6,526</u>	<u>32,308</u>	<u>19,466</u>	<u>2,347,778</u>
-	-	-	-	-	-	224,150
-	-	-	-	-	-	1,207,678
-	-	-	-	-	-	141,258
1,444	175,433	2,081	1,837	-	-	183,622
-	-	-	-	-	76,987	622,454
<u>1,444</u>	<u>175,433</u>	<u>2,081</u>	<u>1,837</u>	<u>-</u>	<u>76,987</u>	<u>2,379,162</u>
<u>(1,427)</u>	<u>(116,498)</u>	<u>(79)</u>	<u>4,689</u>	<u>32,308</u>	<u>(57,521)</u>	<u>(31,384)</u>
-	332,007	-	-	64,282	-	414,539
-	-	-	-	-	-	(78,634)
-	<u>332,007</u>	<u>-</u>	<u>-</u>	<u>64,282</u>	<u>-</u>	<u>335,905</u>
<u>(1,427)</u>	<u>215,509</u>	<u>(79)</u>	<u>4,689</u>	<u>96,590</u>	<u>(57,521)</u>	<u>304,521</u>
<u>13,970</u>	<u>(214,965)</u>	<u>79</u>	<u>16,866</u>	<u>219,410</u>	<u>472,984</u>	<u>2,378,897</u>
<u>\$ 12,543</u>	<u>\$ 544</u>	<u>\$ -</u>	<u>\$ 21,555</u>	<u>\$ 316,000</u>	<u>\$ 415,463</u>	<u>\$ 2,683,418</u>

concluded

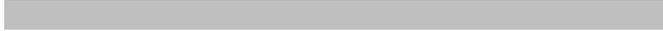
KALKASKA COUNTY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2017

	Trust & Agency	NPI Wireless Zoning	Sheriff's Commissary	Sheriff Forfeiture	Cemetery Trust
Assets					
Cash and cash equivalents	\$ 94,903	\$ 3,117	\$ 9,616	\$ 13,225	\$ 30,965
Liabilities					
Undistributed collections	\$ 20,706	\$ 3,117	\$ 9,616	\$ 13,225	\$ 30,965
Other liabilities	74,197	-	-	-	-
Total liabilities	\$ 94,903	\$ 3,117	\$ 9,616	\$ 13,225	\$ 30,965



Traffic Safety Committee	Library Penal Fine	Animal Control Adoption	Total
<u>\$ 1,377</u>	<u>\$ 3,729</u>	<u>\$ 641</u>	<u>\$ 157,573</u>
\$ 1,377	\$ 3,729	\$ 641	\$ 83,376
-	-	-	74,197
<u>\$ 1,377</u>	<u>\$ 3,729</u>	<u>\$ 641</u>	<u>\$ 157,573</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 28, 2018

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, 2017, 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 28, 2018. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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.



INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 28, 2018

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County") as of and for the year ended December 31, 2017, and have issued our report thereon dated June 28, 2018. We did not audit the financial statements of the Kalkaska County Road Commission discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate to the Kalkaska County Road Commission, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 3, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated June 28, 2018. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on May 17, 2018.

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the County's Significant Accounting Practices

Significant Accounting Policies

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

As described in Note 15 to the financial statements, the County changed accounting policies related to other postemployment benefits by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The implementation of GASB 74 did not have a cumulative effect on the beginning of the year fund balance or net position.

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

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the other postemployment benefits plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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

Disagreements with Management

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

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

Upcoming Changes in Accounting Standards

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

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

Very truly yours,

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

KALKASKA COUNTY, MICHIGAN

Attachment A - Comments and Recommendations For the December 31, 2017 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the County's internal control over financial reporting is described in our report, dated June 28, 2018, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated June 28, 2018, on the financial statements of Kalkaska County, Michigan.

Budgetary Control (repeat comment)

In the 2017 budget resolution, the Board of Commissioners approved a line-item budget, rather than a budget at the activity level as recommended by the State of Michigan Uniform Budgeting Manual. Since the budget represents a legal appropriation of public funds, and expenditures in excess of the budget are a violation of law, it is important that the Board adopt the budget at a level of detail that is manageable. We recommend that, although a line item budget may be used to develop the approved budget, that the Board legally approve the budget at the activity level so as to not hold itself accountable for individual line-item variances.

Account Reconciliation (repeat comment)

We noted the following during our audit procedures:

- Although the County appears to have a process for the independent review of bank reconciliations, documentation that would indicate who performed the review and when the review was completed was not noted.
- Several agency fund accounts have stagnant balances, small debit balances and have not been adjusted or reconciled to underlying detail in several years.

We recommend that all account reconciliations show evidence of who prepared and who reviewed the reconciliation along with the date each was performed. We further recommend that all of the accounts in the agency funds be reviewed and any balances that are no longer valid be written off.



KALKASKA COUNTY, MICHIGAN

Attachment B - Upcoming Changes in Accounting Standards / Regulations For the December 31, 2017 Audit

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

GASB 75 ■ Postemployment Benefits Other than Pensions

Effective 06/15/2018 (your FY 2018)

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

GASB 83 ■ Certain Asset Retirement Obligations

Effective 06/15/2019 (your FY 2019)

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the County.

GASB 84 ■ Fiduciary Activities

Effective 12/15/2019 (your FY 2019)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the County.

GASB 85 ■ Omnibus 2017

Effective 06/15/2018 (your FY 2018)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the County.

GASB 86 ■ Certain Debt Extinguishment Issues

Effective 06/15/2018 (your FY 2018)

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position. We do not expect this standard to have any significant effect on the County.

KALKASKA COUNTY, MICHIGAN

■ Attachment B - Upcoming Changes in Accounting Standards / Regulations For the December 31, 2017 Audit

GASB 87 ■ Leases

Effective 12/15/2020 (your FY 2020)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

GASB 88 ■ Certain Disclosures Related to Debt

Effective 06/15/2019 (your FY 2019)

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the County.



KALKASKA COUNTY, MICHIGAN

Attachment C - Management Representations For the December 31, 2017 Audit

Following are the written representations that we requested from management.



Kalkaska County Clerk
Deborah L. Hill
Clerk of Board of Commissioners
46th Circuit Court Clerk

June 28, 2018

Rehmann Robson
107 South Cass Street, Suite A
Traverse City, Michigan 49684

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the 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, 2017, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparisons for the General Fund and each major special revenue fund of the County in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 28, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 3, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

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

Information Provided

23. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
26. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
27. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
28. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
29. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
31. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
32. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
33. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
34. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
35. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
36. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

37. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

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

Required Supplementary Information

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


Deborah Hill, County Clerk


Valerie Thornburg, County Treasurer

KALKASKA COUNTY, MICHIGAN

Schedule of Adjustments Passed (SOAP)
For the December 31, 2017 Audit

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

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
General fund / governmental activities					
Prior year unsupported debit balance in payroll deduction liability account (corrected in 2017)	\$ -	\$ -	\$ 5,533	\$ -	\$ 5,533
Misstatement as a percentage of total assets & deferred outflows - governmental activities	0.00%	0.00%	0.04%	0.00%	0.04%

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 28, 2018

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County") as of and for the year ended December 31, 2017, and have issued our report thereon dated June 28, 2018. We did not audit the financial statements of the Kalkaska County Road Commission discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate to the Kalkaska County Road Commission, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 3, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated June 28, 2018. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on May 17, 2018.

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the County's Significant Accounting Practices

Significant Accounting Policies

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

As described in Note 15 to the financial statements, the County changed accounting policies related to other postemployment benefits by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The implementation of GASB 74 did not have a cumulative effect on the beginning of the year fund balance or net position.

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

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the other postemployment benefits plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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

Disagreements with Management

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

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

Upcoming Changes in Accounting Standards

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

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

Very truly yours,

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

KALKASKA COUNTY, MICHIGAN

Attachment A - Comments and Recommendations For the December 31, 2017 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the County's internal control over financial reporting is described in our report, dated June 28, 2018, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated June 28, 2018, on the financial statements of Kalkaska County, Michigan.

Budgetary Control (repeat comment)

In the 2017 budget resolution, the Board of Commissioners approved a line-item budget, rather than a budget at the activity level as recommended by the State of Michigan Uniform Budgeting Manual. Since the budget represents a legal appropriation of public funds, and expenditures in excess of the budget are a violation of law, it is important that the Board adopt the budget at a level of detail that is manageable. We recommend that, although a line item budget may be used to develop the approved budget, that the Board legally approve the budget at the activity level so as to not hold itself accountable for individual line-item variances.

Account Reconciliation (repeat comment)

We noted the following during our audit procedures:

- Although the County appears to have a process for the independent review of bank reconciliations, documentation that would indicate who performed the review and when the review was completed was not noted.
- Several agency fund accounts have stagnant balances, small debit balances and have not been adjusted or reconciled to underlying detail in several years.

We recommend that all account reconciliations show evidence of who prepared and who reviewed the reconciliation along with the date each was performed. We further recommend that all of the accounts in the agency funds be reviewed and any balances that are no longer valid be written off.



KALKASKA COUNTY, MICHIGAN

Attachment B - Upcoming Changes in Accounting Standards / Regulations For the December 31, 2017 Audit

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

GASB 75 ■ Postemployment Benefits Other than Pensions

Effective 06/15/2018 (your FY 2018)

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

GASB 83 ■ Certain Asset Retirement Obligations

Effective 06/15/2019 (your FY 2019)

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the County.

GASB 84 ■ Fiduciary Activities

Effective 12/15/2019 (your FY 2019)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the County.

GASB 85 ■ Omnibus 2017

Effective 06/15/2018 (your FY 2018)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the County.

GASB 86 ■ Certain Debt Extinguishment Issues

Effective 06/15/2018 (your FY 2018)

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position. We do not expect this standard to have any significant effect on the County.

KALKASKA COUNTY, MICHIGAN

■ Attachment B - Upcoming Changes in Accounting Standards / Regulations For the December 31, 2017 Audit

GASB 87 ■ Leases

Effective 12/15/2020 (your FY 2020)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

GASB 88 ■ Certain Disclosures Related to Debt

Effective 06/15/2019 (your FY 2019)

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the County.



KALKASKA COUNTY, MICHIGAN

Attachment C - Management Representations For the December 31, 2017 Audit

Following are the written representations that we requested from management.



Kalkaska County Clerk
Deborah L. Hill
Clerk of Board of Commissioners
46th Circuit Court Clerk

June 28, 2018

Rehmann Robson
107 South Cass Street, Suite A
Traverse City, Michigan 49684

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the 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, 2017, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparisons for the General Fund and each major special revenue fund of the County in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 28, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 3, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

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

Information Provided

23. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
26. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
27. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
28. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
29. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
31. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
32. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
33. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
34. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
35. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
36. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

37. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

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

Required Supplementary Information

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


Deborah Hill, County Clerk


Valerie Thornburg, County Treasurer

KALKASKA COUNTY, MICHIGAN

Schedule of Adjustments Passed (SOAP)
For the December 31, 2017 Audit

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

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
General fund / governmental activities					
Prior year unsupported debit balance in payroll deduction liability account (corrected in 2017)	\$ -	\$ -	\$ 5,533	\$ -	\$ 5,533
Misstatement as a percentage of total assets & deferred outflows - governmental activities	0.00%	0.00%	0.04%	0.00%	0.04%

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
LICENSES AND PERMITS								
Business Licenses and Permits	476-489			\$265,027.00				T99 \$265,027.00
Non-Business Licenses and Permits	490-500	\$40,167.00	\$39,366.00					T99 \$39,366.00
TOTAL LICENSES AND PERMITS		\$40,167.00	\$39,366.00	\$265,027.00				\$304,393.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
FEDERAL GRANTS								
General Government	502	\$60,000.00	\$68,999.00	\$164,913.00				B89 \$233,912.00
Public Safety	505	\$15,400.00	\$15,218.00	\$700.00				B89 \$15,918.00
Sanitation	513							B89
Health and/or Hospitals	516			\$2,294.00				B42 \$2,294.00
Welfare	519							B79
Culture and Recreation	523							B89
Housing & Community Development	522							B50
All Other Federal Aid Grants	501-538 Except Above	\$57,363.00	\$58,628.00				\$1,056,087.00	B89 \$1,114,715.00
TOTAL FEDERAL GRANTS		\$132,763.00	\$142,845.00	\$167,907.00			\$1,056,087.00	\$1,366,839.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
STATE GRANTS								
State Revenue Sharing	574	\$351,591.00	\$356,278.00					C89 \$356,278.00
Public Safety	543-545, 547, 570	\$133,215.00	\$145,714.00	\$168,924.00				C89 \$314,638.00
Streets and Highways (Act 51)	546						\$4,483,600.00	C46 \$4,483,600.00
Streets and Highways (Non-Act 51)	546							C46
Sanitation	552							C89

Health	555	\$297.00	\$297.00	\$90,125.00				C42	\$90,422.00
Welfare	555							C79	
Culture and Recreation	566			\$20,104.00	\$854.00			C89	\$20,958.00
Other General/All Other State Aid Grants	540-579 Except Above	\$1,209,396.00	\$395,128.00	\$1,307.00			\$85,902.00	C89	\$482,337.00
TOTAL STATE GRANTS		\$1,694,499.00	\$897,417.00	\$280,460.00	\$854.00		\$4,569,502.00		\$5,748,233.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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CONTRIBUTIONS FROM LOCAL UNITS

General Government	581-599			\$9,440.00				D89	\$9,440.00
Public Safety	581-599							D89	
Streets and Highways	581-599						\$1,227,546.00	D46	\$1,227,546.00
Sanitation	581-599							D89	
Health and/or Hospitals	581-599			\$8,500.00				D42	\$8,500.00
Welfare	581-599							D79	
Culture and Recreation	581-599							D89	
Housing & Community Development	581-599							D50	
Gas, Water, and Electric Utilities	581-599							D89	
Transit	581-599							D94	
All Other	580-599 Except Above			\$2,500.00				D89	\$2,500.00
TOTAL CONTRIBUTIONS FROM LOCAL UNITS				\$20,440.00			\$1,227,546.00		\$1,247,986.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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CHARGES FOR SERVICES

All Other Services Rendered Charges	626-637	\$1,049,480.00	\$1,167,586.00	\$1,049,620.00	\$529,414.00	\$0.00	\$121,946.00	A89	\$2,868,566.00
Parking Facilities (garages, meters, etc.)	652				\$0.00	\$0.00		A60	\$0.00

All Other Sales, Use, & Admission Fees	638-651, 653, 654	\$10,340.00	\$11,447.00	\$43,421.00	\$0.00	\$0.00		A89	\$54,868.00
All Other Fees	600-654 Except Above	\$39,230.00	\$41,752.00	\$23,413.00	\$0.00	\$0.00		A89	\$65,165.00
TOTAL CHARGES FOR SERVICES		\$1,099,050.00	\$1,220,785.00	\$1,116,454.00	\$529,414.00	\$0.00	\$121,946.00		\$2,988,599.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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FINES AND FORFEITS

All Fines, Penalties & Forfeits	655-663			\$173,193.00	\$179,384.00			U99	\$352,577.00
TOTAL FINES AND FORFEITS				\$173,193.00	\$179,384.00				\$352,577.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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INTEREST AND RENTS

Interest & Dividends	665-666	\$500.00	\$13,737.00	\$14,005.00	\$17,044.00		\$7,028.00		\$51,814.00
Rents & Royalties	667-668	\$123,665.00	\$135,249.00	\$65,679.00					\$200,928.00
Other	664-670 Except Above								
TOTAL INTEREST AND RENTS		\$124,165.00	\$148,986.00	\$79,684.00	\$17,044.00		\$7,028.00		\$252,742.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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OTHER REVENUE

Reimbursements	676								
Sale of Capital Assets	673				-\$626.00		\$128,400.00	U11	\$127,774.00
Public and Private Contributions	674			\$13,357.00				U99	\$13,357.00
Refunds & Rebates	687							U99	
Miscellaneous/Other Revenue	671-689 Except Above	\$79,041.00	\$98,428.00	\$137,696.00			\$7,155.00	U99	\$243,279.00
TOTAL OTHER REVENUE		\$79,041.00	\$98,428.00	\$151,053.00	-\$626.00		\$135,555.00		\$384,410.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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OTHER FINANCING SOURCES

Proceeds from Bond/Note Issuance	696-698								
Transfers In	699	\$28,761.00	\$89,050.00	\$414,539.00					\$503,589.00
TOTAL OTHER FINANCING SOURCES		\$28,761.00	\$89,050.00	\$414,539.00					\$503,589.00
TOTAL REVENUE		\$6,804,550.00	\$7,051,798.00	\$3,971,385.00	\$1,458,984.00	\$0.00	\$7,819,098.00		\$20,301,265.00

STATEMENT OF OPERATIONS

Legislative (Council, Board, Commission)	101-128	\$232,470.00	\$217,157.00					E29	\$217,157.00
Chief Executive	171-190							E29	
Treasurer	253	\$194,020.00	\$182,668.00					E23	\$182,668.00
Clerk	215-218	\$277,836.00	\$239,669.00					E29	\$239,669.00
Assessing Equalization	243, 245, 247 and 257	\$147,597.00	\$145,871.00					E23	\$145,871.00
Finance and Tax Administration	191-260 Except Above				\$82,731.00			E23	\$82,731.00
Elections	262	\$30,269.00	\$15,135.00					E89	\$15,135.00
Building and Grounds	265	\$434,704.00	\$414,439.00					E31	\$414,439.00
Attorney/Corporation Counsel	266								
All Other General Government	100-279 Except Above	\$1,185,614.00	\$1,064,864.00					E89	\$1,064,864.00
TOTAL GENERAL GOVERNMENT		\$2,502,510.00	\$2,279,803.00		\$82,731.00				\$2,362,534.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
JUDICIAL								
Trial Court	281-282							E25
Circuit Court	283-285							E25
District/Municipal Court	286-288							E25

Friend of the Court	289, 291							E25	
Friend of the Court- Cooperative Reimbursement Program	290							E25	
Law Library	292-293							E25	
Probate Court	294							E25	
Probation	295							E25	
Prosecuting Attorney	296							E25	
Grand Jury	297							E25	
Family Counseling Services	298							E25	
Other Judicial Activities	280-299 Except Above	\$902,467.00	\$901,691.00	\$224,150.00				E25	\$1,125,841.0 0
TOTAL JUDICIAL		\$902,467.00	\$901,691.00	\$224,150.00					\$1,125,841.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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PUBLIC SAFETY

Police/Sheriff/Cons table	301, 305, 310, 315- 320, 330-332	\$1,841,022.0 0	\$1,836,008.0 0	\$10,570.00				E62	\$1,846,578.0 0
Fire	336-344	\$0.00	\$0.00	\$0.00				E24	\$0.00
Combined Public Safety Department	345							E89	
Emergency 911 Dispatch Activities	325	\$19,565.00	\$17,248.00	\$836,145.00				E89	\$853,393.00
Corrections/Jail	351-370	\$850,314.00	\$834,988.00	\$1,989.00				E05	\$836,977.00
Building Inspection & Regulation Activities	371-399			\$204,590.00				E66	\$204,590.00
All Other Public Safety Activities	300-439 Except Above			\$154,384.00				E89	\$154,384.00
TOTAL PUBLIC SAFETY		\$2,710,901.0 0	\$2,688,244.0 0	\$1,207,678.0 0					\$3,895,922.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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PUBLIC WORKS

Public Works (Non- Act 51)	441, 442, 444-448	\$109,937.00	\$98,243.00					E44	\$98,243.00
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All Other Health & Welfare	600-699 Except Above			\$4,664.00				E32	\$4,664.00
TOTAL HEALTH AND WELFARE		\$263,776.00	\$247,555.00	\$2,057,068.00					\$2,304,623.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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COMMUNITY/ECONOMIC DEVELOPMENT

Community Planning and Zoning	701-703, 710, 712, 713	\$96,951.00	\$92,714.00					E29	\$92,714.00
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Economic Development	728, 730-732							E89	
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Register of Deeds	711								
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All Other Community Development	700-749 Except Above	\$74,771.00	\$66,947.00	\$938.00					\$67,885.00
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TOTAL COMMUNITY/ECONOMIC DEVELOPMENT		\$171,722.00	\$159,661.00	\$938.00					\$160,599.00
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Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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RECREATION AND CULTURE

Parks and Recreation	751-752, 756, 760, 764, 767, 770			\$65,327.00				E61	\$65,327.00
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Library	790-791			\$557,127.00				E52	\$557,127.00
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Various Cultural Activities, Fine Arts, Historical Society, Museums, etc.	803-805							E61	
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All Other Recreation and Culture	750-849 Except Above				\$674,828.00				\$674,828.00
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TOTAL RECREATION AND CULTURE				\$622,454.00	\$674,828.00				\$1,297,282.00
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Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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OTHER

Miscellaneous	955	\$269,837.00	\$277,387.00						\$277,387.00
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Capital Outlay	901-904								
Debt Service	906-929				\$52,915.00				\$52,915.00
Depreciation	968				\$147,902.00				\$147,902.00
TOTAL OTHER		\$269,837.00	\$277,387.00		\$200,817.00				\$478,204.00

Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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OTHER FINANCING USES

Transfers (Out)	995	\$356,971.00	\$414,539.00	\$78,634.00	\$10,416.00				\$503,589.00
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EXTRAORDINARY /SPECIAL ITEMS	998-99								
TOTAL OTHER FINANCING USES		\$356,971.00	\$414,539.00	\$78,634.00	\$10,416.00				\$503,589.00

TOTAL EXPENDITURES		\$7,288,121.00	\$7,067,123.00	\$4,332,180.00	\$968,792.00		\$5,748,379.00		\$18,116,474.00
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Description of Account	Account Number(s)	General Fund Final Amended Budget	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
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Net Change in Fund Balances/Fund Net Position		\$-483,571.00	\$-15,325.00	\$-360,795.00	\$490,192.00	\$0.00	\$2,070,719.00		\$2,184,791.00
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Fund Balance/Fund Net Position Beginning Balances		\$2,717,388.00	\$2,717,388.00	\$3,590,558.00	\$7,810,012.00	\$0.00	\$16,380,064.00		\$30,498,022.00
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Prior Period Adjustment									
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Fund Balance/Fund Net Position Ending Balances		\$2,233,817.00	\$2,702,063.00	\$3,229,763.00	\$8,300,204.00	\$0.00	\$18,450,783.00		\$32,682,813.00
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STATEMENT OF OPERATIONS--Additions to Capital Assets

List Capital Outlay Expenditures from all funds (included in expenditures in the Statement of Operations) by category:

Description of Account	Capital Assets
Legislative	G29
Judicial	G25
General Government	G89
Police	G62
Fire	G24
	\$14,175.00

Combined Public Safety	G89	
Parking Meters, Off-Street Parking	G60	
Corrections	G05	
Other Public Safety	G89	\$102,196.00
Streets & Highways	G44	\$4,264,693.00
Sanitation/Solid Waste	G81	\$69,367.00
Sewerage	G80	
Water	G91	
Electric Utilities	G92	
Airports	G01	
Public Transportation	G94	
Hospital & Hospital Operations	G36	
Welfare	G79	\$786,602.00
Housing & Redevelopment	G50	
All Other Health & Welfare	G32	
Parks & Recreation	G61	
Library	G52	\$73,701.00
Other Recreation & Culture	G61	\$99,240.00
Other Functions	G89	
Other Capital Outlay		
TOTAL ADDITIONS TO CAPITAL ASSETS		\$5,409,974.00

STATEMENT OF POSITION

Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total	ASSETS, DEFERRED OUTFLOWS OF RESOURCES	
Cash & Cash Equivalents	001-016	\$2,297,777.00	\$3,337,839.00	\$4,801,984.00	\$0.00	\$2,180,363.00	W61	\$12,617,963.00	
Investment in Securities	017						W61		
TOTAL CASH AND INVESTMENTS		\$2,297,777.00	\$3,337,839.00	\$4,801,984.00	\$0.00	\$2,180,363.00		\$12,617,963.00	

Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
RECEIVABLES							
Tax, Utility, & Assessment Receivables	019-070	\$363,847.00	\$1,315,166.00	\$1,505,187.00		\$721,500.00	\$3,905,700.00
Due from Other Governments & Units	071-081	\$106,229.00	\$106,885.00	\$23,579.00		\$705,549.00	\$942,242.00
Due from Other Funds	084						
All Other Receivables	18-100 Except Above	\$1,701.00	\$859,989.00	\$120,589.00		\$15,206.00	\$997,485.00
TOTAL RECEIVABLES		\$471,777.00	\$2,282,040.00	\$1,649,355.00		\$1,442,255.00	\$5,845,427.00
Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
OTHER CURRENT ASSETS							
Inventory	101-110			\$2,009.00		\$371,715.00	\$373,724.00
Prepays	123	\$178,358.00	\$20,643.00	\$2,153.00		\$60,218.00	\$261,372.00
Assets Held for Sale	128						
All Other Current Assets	111-129 Except Above						
TOTAL OTHER CURRENT ASSETS		\$178,358.00	\$20,643.00	\$4,162.00		\$431,933.00	\$635,096.00
Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
CAPITAL ASSETS (NET)							
Land & Improvements	130-135					\$5,223,018.00	\$5,223,018.00
Buildings & Equipment	136-147			\$4,264,261.00		\$2,026,343.00	\$6,290,604.00
Vehicles	148-149						
Water System	152-153						
Sewer System	154-155						
All Other Capital Assets	150-151, 156-179					\$15,993,087.00	\$15,993,087.00
TOTAL CAPITAL ASSETS (NET)				\$4,264,261.00		\$23,242,448.00	\$27,506,709.00

Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
OTHER LONG TERM ASSETS							
Net Pension Asset	190						
Net OPEB Asset	191						
Advances to Other Funds	193			\$351,484.00			\$351,484.00
Advances to Other Units of Government	194						
Other Investments	180-194 Except Above						
TOTAL OTHER LONG TERM ASSETS				\$351,484.00			\$351,484.00
TOTAL ASSETS		\$2,947,912.00	\$5,640,522.00	\$11,071,246.00	\$0.00	\$27,296,999.00	\$46,956,679.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	195-199			\$27,717.00		\$199,237.00	\$226,954.00
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		\$2,947,912.00	\$5,640,522.00	\$11,098,963.00	\$0.00	\$27,496,236.00	\$47,183,633.00
Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, FUND BALANCE/NET POSITION		101-Fund	102-499 Funds	500-599 Funds	601-699 Funds		101-699 Funds + Component units
CURRENT LIABILITIES							
Due to Other Funds	214		\$84,210.00				\$84,210.00
Accrued Wages & Benefits	257-261	\$56,400.00	\$25,299.00	\$3,349.00		\$99,746.00	\$184,794.00
All Other Accounts Payable & Current Liabilities	200-299 Except Above	\$189,449.00	\$215,817.00	\$45,399.00	\$0.00	\$317,589.00	\$768,254.00
TOTAL CURRENT LIABILITIES		\$245,849.00	\$325,326.00	\$48,748.00	\$0.00	\$417,335.00	\$1,037,258.00
Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total
LONG-TERM LIABILITIES							
Long-Term Debt	300-307			\$1,470,000.00		\$1,567,671.00	\$3,037,671.00

Advances from Other Funds	314			\$351,484.00				\$351,484.00
Other Advances	328-330, 333							
Unearned Revenues	339							
Net Pension Liability	334			\$168,077.00		\$5,821,383.00		\$5,989,460.00
OPEB Obligation	335					\$510,064.00		\$510,064.00
Accrued Benefits & Compensation	343							
All Other Long-Term Liabilities	300-359 Except Above							
TOTAL LONG-TERM LIABILITIES				\$1,989,561.00		\$7,899,118.00		\$9,888,679.00
TOTAL DEFERRED INFLOWS OF RESOURCES	360-369		\$2,085,433.00	\$760,450.00		\$729,000.00		\$3,574,883.00
Description of Account	Account Number(s)	General Fund	All Other Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units	Total	
FUND BALANCE/NET POSITION								
(Net) Investment in Capital Assets	391			\$2,794,261.00		\$22,606,625.00		\$25,400,886.00
						0		0
Nonspendable	370-374	\$178,358.00	\$20,643.00					\$199,001.00
Restricted	375-379, 392-398		\$2,195,245.00					\$2,195,245.00
Committed	380-384	\$267,957.00	\$1,016,151.00					\$1,284,108.00
Assigned	385-389	\$335,000.00						\$335,000.00
Unassigned/Unrestricted	390, 399	\$1,920,748.00	-\$2,276.00	\$5,505,943.00	\$0.00	-\$4,155,842.00		\$3,268,573.00
TOTAL FUND BALANCE/NET POSITION		\$2,702,063.00	\$3,229,763.00	\$8,300,204.00	\$0.00	\$18,450,783.00		\$32,682,813.00
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE/NET POSITION		\$2,947,912.00	\$5,640,522.00	\$11,098,963.00	\$0.00	\$27,496,236.00		\$47,183,633.00
Governmental Capital Assets (Net)			\$3,154,899.00	Governmental Long-Term Debt				\$194,662.00

OTHER SUPPLEMENTARY INFORMATION

Description of Account	Total
Amounts Paid to Other Governments	
Corrections	M05

Local Schools	M12	
Financial Administration	M23	
Health	M32	
Hospitals	M38	
Housing and Urban Renewal	M50	
Highways	M44	
Transit Subsidies	M94	
Police	M62	
Fire		
Sewerage	M80	
Sanitation	M81	
All Other	M89	

Amounts Paid to State

Corrections	L05	
Local Schools	L12	
Financial Administration	L23	
Health	L32	
Hospitals	L38	
Housing and Urban Renewal	L50	
Highways	L44	
Transit Subsidies	L94	
Police	L62	
Sewerage	L80	
Sanitation	L81	
All Other	L89	\$39,033.37

City Income Tax Detail

Income tax revenue from residents		\$0.00
Income tax revenue from nonresidents		\$0.00
Other income tax revenue		\$0.00

Personnel Statistics

Number of Police Personnel		42
Number of Fire Personnel		
Combined Public Safety Personnel		

All Other Personnel		172
Total Wage and Salary Costs		\$3,947,516.10

Report salaries, wages, and per diems paid to all full-time and part-time employees of your local unit. These amounts may be taken from W-3 and 1099 forms filed by your local unit at the end of the calendar year.
Show total amount on the line for total wage and salary costs.

Investment Information

Do all investments comply with P.A. 20 of 1943?		Y
Does the unit have an investment policy approved by the governing body that complies with GASB statement No. 40?		Y
Does the investment policy allow mutual funds with net asset values other than \$1?		Y

Other Information

Are there non-pension funds invested in derivatives at fiscal year-end?		N
How Many?		
Are there pension funds invested in derivatives at fiscal year-end?		N
How Many?		

DERIVATIVE INSTRUMENTS - NON-PENSION INVESTMENT PORTFOLIO

Note: Please report any derivative instruments your government had at the end of the fiscal year which were part of the non-pension investment portfolio. The information must be reported both on an aggregate basis, and itemized by issuer and type of derivative instrument or product.

Issuer	Type of Derivative	Cost	Market Value
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DERIVATIVE INSTRUMENTS - PENSION INVESTMENT PORTFOLIO

Note: Please report any derivative instruments your government had at the end of the fiscal year which were part of the pension investment portfolio. The information must be reported both on an aggregate basis, and itemized by issuer and type of derivative instrument or product.

Issuer	Type of Derivative	Cost	Market Value
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PENSION AND HEALTH BENEFIT PLANS

PENSION

Does your unit have an employee retirement system(s)?	Y
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If yes, is it administered by:

Insurance Company		Self
Financial Institution	CHECKED	MERS

Your local unit has the following plan types: (check all that apply)

CHECKED	Defined Benefit	CHECKED	Hybrid
	Defined Contribution		

What is the aggregate Net Pension Liability? (If overfunded, please enter as a negative number)	\$5,602,574.00
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Please provide the following for all defined contributions plans:

Employer Contributions Made	\$745,157.00	Member Contributions Made	\$21,600.00
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Please select the types of defined benefit plans of the primary government:

CHECKED	General Employees	CHECKED	Police		Other
	Police & Fire or Public Safety		Fire		

Please provide the following for the general employees defined benefit plan:

Pension Expense	\$161,529.00	Actuarially Determined Contribution	\$206,196.00
Employer Contributions Made	\$258,900.00	Actuarial Value of Assets	\$6,647,762.00
Member Contributions Made	\$21,600.00	Funded Percentage	73%
Investment Rate of Return	11%		

Please provide the following for the police defined benefit plan:

Pension Expense	\$296,597.00	Actuarially Determined Contribution	\$357,528.00
Employer Contributions Made	\$374,730.00	Actuarial Value of Assets	\$8,696,121.00
Member Contributions Made	\$0.00	Funded Percentage	73%
Investment Rate of Return	11%		

Please provide the following for the fire defined benefit plan:

Pension Expense		Actuarially Determined Contribution	
Employer Contributions Made		Actuarial Value of Assets	
Member Contributions Made		Funded Percentage	
Investment Rate of Return			

Please provide the following for the police & fire or public safety defined benefit plan:

Pension Expense		Actuarially Determined Contribution	
Employer Contributions Made		Actuarial Value of Assets	
Member Contributions Made		Funded Percentage	
Investment Rate of Return			

Please provide the following for the other defined benefit plan:

Name of Defined Benefit Plan		Actuarially Determined Contribution	
Pension Expense		Actuarial Value of Assets	
Employer Contributions Made		Funded Percentage	
Member Contributions Made		Investment Rate of Return	

Are your defined benefit pension plans audited by an independent CPA?	Y
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OTHER POSTEMPLOYMENT BENEFITS

Does your unit have other post-employment benefits (OPEB) such as retiree healthcare?	Y
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If yes, is it administered by:			
	Insurance Company		Self
CHECKED	Financial Institution		MERS

What is the aggregate Unfunded Accrued Liability for the primary government? (If overfunded, please enter as a negative number)	\$979,690.00
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Please provide the following:			
Annual Required Contribution	\$38,601.00		
Employer Contributions Made	\$38,601.00	Funded Percentage	20.6%

INDEBTEDNESS

Report special obligations of all agencies of your government as well as general obligation debt.

Description	Beginning Balance	Additions (Include all refunding issues)	Reductions (Include all refunded debt)	Ending Balance
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LONG-TERM DEBT

Bonds, mortgages, etc. with an original term of more than one year issued in the name of your government or of particular agencies. Exclude amounts for compensated absences.

Public Debt for Privately Owned Housing, Industrial, or Business Purposes	19T	\$1,920,000.00	24T		34T	\$450,000.00	44T	\$1,470,000.00
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ALL OTHER PURPOSES								
General Obligation Bonds								
Revenue Bonds								
Unlimited Tax Bonds								
Limited Tax Bonds								
Notes Payable								
All Other Debt								
TOTAL ALL OTHER PURPOSES	19U		29U		39U		44U	
TOTAL LONG-TERM DEBT		\$1,920,000.00				\$450,000.00		\$1,470,000.00

Description	Beginning Balance	Additions (Include all refunding issues)	Reductions (Include all refunded debt)	Ending Balance
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SHORT-TERM (Interest-Bearing) DEBT

Tax anticipation notes, bond anticipation notes, interest-bearing warrants, and other obligations with a term of one year or less. Exclude accounts payable and other noninterest-bearing obligations.

Tax Anticipation Note								
Revenue Anticipation Note								

All Other Short-Term Debt								
TOTAL SHORT-TERM DEBT	61V						64V	

Description	Amount							
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INTEREST ON DEBT

Amount of interest paid on long and short-term debt by purpose.

Interest on Water Supply System Debt	191							
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Interest on Sewer System Debt	189							
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Interest on Electric Power System Debt	192							
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Interest on Transit System Debt	194							
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Interest on All Other Debt	189	\$52,915.00						
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Remarks:

Certification

Please provide the following:

CERTIFIED I affirm that all answers are correct to the best of my knowledge.

CERTIFIED

CERTIFIED

I affirm that I am authorized to submit this form on behalf of the local unit of government .

I affirm that the form has been reconciled to the corresponding audit report where applicable.



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

July 2, 2018

**Notice of Intent To
Withhold State Payments**

Municipality Code: 400000
APR Form ID Number: 51978
Report ID Number: 79984

Sent Via Email

Chief Administrative Officer
Kalkaska County
dhill@kalkaskacounty.org

Dear Chief Administrative Officer:

The Glenn Steil State Revenue Sharing Act of 1971, Public Act 140 of 1971, Section 21(2) states that units of local government (local units) that end their fiscal year in a deficit condition shall formulate a deficit elimination plan. Any assessment of a local unit's deficit condition should be made using the guidelines provided in Treasury Website (Numbered Letter 2016-1).

The Community Engagement and Finance Division received an audit report from your local unit for the fiscal year ending 2017. Your Certified Public Accountant has indicated a deficit in one or more funds as follows:

<u>FUND NAME</u>	<u>AMOUNT</u>
Animal Control Fund	-\$1,201.00
Child Care Fund	-\$1,075.00

If a deficit exists in the General Fund, the General Fund plan should include a monthly breakdown of revenues and expenditures for the first two years of the projection and annual detail for the remaining years. For example, a five-year plan would show monthly detail for 24 months, and annual detail for the remaining three years. When a revised plan is submitted in the subsequent year, it would include a monthly breakdown for two years and an annual breakdown for the remaining two years. The monthly breakdown shall be for actual revenue and expenditures expected that month. For example, property taxes should be included in the months the taxes are projected to be actually collected. It shall not be merely the annual revenue and expenditures divided by

12 months. This will allow for a more meaningful picture of how the municipality is progressing on a monthly basis.

Except where indicated "No Plan Necessary," please upload a deficit elimination plan for all funds listed above and a certified resolution online at Treasury Website (<http://www.michigan.gov/MunicipalFinance>) within 30 days from the date of this letter. Should a plan not be filed within 30 days, we may withhold 25% of the local unit's State Incentive Payments or payments issued under Public Act 140 of 1971, the Glenn Steil State Revenue Sharing Act of 1971. Once withheld, payments are not released when a plan has been *filed*, but when a plan has been *evaluated and certified* by Treasury.

After receiving your plan, we will notify you by email if additional information is needed or that your plan has been certified. If you have any questions, contact the Municipal Finance Section at (517) 373-3227 (option 0) or email questions to Treas_MunicipalFinance@Michigan.gov.

Sincerely,

A handwritten signature in black ink that reads "Harlan Goodrich". The signature is written in a cursive style with a blue dot at the end of the last name.

Harlan Goodrich, Municipal Finance Manager
Community Engagement and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

July 3, 2018

Denial

Municipality Code: 400000
Fiscal Year Ended: 12/2017
Report ID Number: 80013

Dear Chief Administrative Officer:

Thank you for submitting a Qualifying Statement for Kalkaska County to the Michigan Department of Treasury on July 2, 2018. Based upon the information provided in the Qualifying Statement, we have determined that the municipality is not in material compliance with the following criteria as identified in Section 303(3) of Public Act 34 of 2001:

- Subsection (m) the municipality ended its last fiscal year with a deficit in one or more funds and an acceptable deficit elimination plan has not been certified or conditionally approved.

Therefore, the municipality is not authorized to issue municipal securities under this act without further approval from the Department. You may request reconsideration of this denial or you may request prior approval from the Department for each municipal security that you issue until you are eligible to submit your next qualifying statement.

If you have any questions, contact the Municipal Finance Section at (517) 373-3227 (option 0) or email questions to Treas_MunicipalFinance@Michigan.gov.

Sincerely,

A handwritten signature in black ink that reads "Rod Taylor".

Rod Taylor, Administrator
Community Engagement and Finance Division

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Local Unit Basic Information

County:	KALKASKA	Type:	County	Local Unit Name:	Kalkaska County
Municode:	40-0-000	FY Ending:	2017	Year End Month:	12
Form ID: 51978			Instructions		

Attachment File	Description
2017 Kalkaska County-SOM.pdf	Please attach Audit Report
2017 Kalkaska County-SAS letter Final.pdf	Please attach reported deficiencies

Reporting

Enter Opinion Date:	06/28/2018
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Select type of audit opinion for the following:

Governmental activities:	UNMOD	Business-type activities:	UNMOD
Aggregate discretely presented component units:	UNMOD	Major fund(s):	UNMOD
Aggregate remaining fund information:	UNMOD	Aggregate discretely presented component units and remaining fund information:	

Has the local unit complied with generally accepted accounting principles (GAAP)?	Y
---	---

Are all required component units/funds/significant others of the local unit included in the financial statements and disclosed in the reporting entity notes to the financial statements when applicable?	Y
---	---

Please check all of the following that are missing:

	Component Units		Funds		Significant Others
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Please list component units missing:

Please list funds missing:

Please list others missing:

Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?	Y
---	---

	Y
--	---

Statutory

Nothing came to my attention that caused me to believe that the local unit failed to comply with charters or ordinances. If nothing came to your attention, mark yes.	Y
---	---

Indicate section of charter or ordinance with which the local unit is not in compliance:

Does the local unit have a court ordered judgment tax levy or judgment bond?	N
--	---

Is this a one year levy?	
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Has the local unit distributed tax revenues that were collected for another taxing unit timely as required by the general property tax act?	Y
---	---

Has the current year pension actuarially determined contribution been paid by the unit required by the State Constitution Article 9, Section 24?	Y
--	---

Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the manual for Audits of Local Units of Government in Michigan, as revised (see Appendix H of manual)?	Y
---	---

Has a description of the illegal or unauthorized expenditures been included in the audit?	
---	--

Please provide page number :	
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Describe:

Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of the audit that have not been previously communicated to the Local Government Financial Services Division?	Y
---	---

Has a written report (forensic audit) been produced?	
--	--

Has law enforcement been notified?	
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Does the audit report identify violations of other statutes not described in above?	N
---	---

Describe:

Borrowing/Debt/Deficit

Does the local unit have a negative fund balance in any of its unrestricted (unassigned, assigned and committed) fund balances/unrestricted fund net position (not government-wide statements)?	Y
You must complete the "Deficit Worksheet" section below.	
Is the local unit in compliance with Public Act 34 of 2001, Revised Municipal Finance Act (ie., authorized borrowing, annual filing of a qualifying statement, filing of a security report within 15 days of any issuance)?	Y
Is the local unit in compliance with orders issued under Public Act 243 of 1980, Emergency Municipal Loan Act?	NA

Did the local unit adopt a budget for all required funds (MCL 141.436)?	Y
Was a public hearing on the budget held in accordance with State statute?	Y
Were the local unit's actual expenditures within the amounts authorized in the budget?	N
Are there any individual expenditures or other financing uses that exceed 10% of total expenditures?	Y
Are any of those over budget by 10% or more?	N

Internal Controls

Has the board or council approved all disbursements prior to payment as required by charter or statute?	Y
Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?	Y
To your knowledge, were the bank reconciliations performed timely?	Y
Are there any reported deficiencies other than segregation of duties and/or the preparation of financial statements?	Y
How many are:	
Material weaknesses?	0
Significant deficiencies?	0
Statutory non-compliance?	2
Are any reported deficiencies repeated from the prior year?	Y
Were there any reported deficiencies including those that would be related to internal controls, statutory compliance, or other areas of concern?	Y

Financial Statements

Please enter the following:

General Fund Revenue:	\$6,962,748.00	Governmental net position:	\$4,831,068.00
General Fund Expenditure (Must be positive):	\$6,652,584.00	Business type net position:	\$8,300,204.00
General Fund Other financing net sources/(uses) (Can be positive or negative):	-\$325,489.00	Component units total net position:	\$18,450,783.00
General Fund Beginning Balance:	\$2,717,388.00	Governmental Activities Long- Term Debt:	\$194,662.00
General Fund Ending Balance:	\$2,702,063.00	Major Fund Deficit Amount:	\$0.00
Calculated General Fund Ending Balance:	\$2,702,063.00	Governmental Fund Revenues	\$10,519,593.00

Please explain the difference between calculated and entered General Fund Ending Balance:

Deficit Worksheet

Fund Type	Fund Name	All Funds				Enterprise, Internal Service, Trust or Agency, & Component Unit Funds				Deficit To Be Eliminated
		Unrestricted Fund Balance/Net Position (Deficit)	Deferred Inflows of Resources	Taxes and Special Assessment s Receivable	Deferred Inflows- Taxes and Special Assessment s	Total Net Position (Deficit)/Surp lus	Current Assets	Current Liabilities	CA-CL Deficit	
SPREV	Animal Control Fund	-\$1,201.00	\$100,999.00	\$100,008.00	\$991.00\$991 .00	\$0.00	\$0.00	\$0.00	\$0.00\$0.00	-\$1,201.00- \$1,201.00
SPREV	Child Care Fund	-\$1,075.00	\$0.00	\$0.00	\$0.00\$0.00	\$0.00	\$0.00	\$0.00	\$0.00\$0.00	-\$1,075.00- \$1,075.00

Pension Plans

Our records indicate the following pension plan(s) exist. Put a check mark next to any that are no longer active.

	MERS Agen Multi- Employer				
Assets	\$15,642,861.00				
Liabilities	\$21,245,435.00				
ADC	\$745,157.00				

Health Care (OPEB) Plans

Our records indicate the following opeb plan(s) exist. Put a check mark next to any that are no longer active.

	Single Employer Other Postemployment Benefits				
Assets	\$254,816.00				

Liabilities	\$1,234,506.00				
ADC/ARC	\$38,601.00				

Certified Public Accountant Information

CHECKED We affirm that we are certified public accountants licensed to practice in Michigan.

CHECKED We affirm that all answers are correct to the best of our knowledge.

CHECKED We further affirm that all material weaknesses, significant deficiencies, and statutory noncompliance violations as well as all budget violations that were reported to the auditee are reported to the Michigan Department of Treasury.

CPA Name: Kim Lindsay, CPA, CGMA Ten Digit License Number: 0000018043

Please provide a primary email address for the local unit contact: dhill@kalkaskacounty.gov