

# Kalkaska County, Michigan

Year Ended  
December 31,  
2015

Financial  
Statements and  
Supplementary  
Information

# KALKASKA COUNTY, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

June 28, 2016

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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

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

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

***Independent Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kalkaska County Road Commission discretely presented component unit, which represents 100 percent of the total assets, net position and revenue of the discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the 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, 2015, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Implementation of GASB Statement No. 68*

As described in Note 18, the County implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year. Accordingly, beginning net position of governmental activities, Sportsplex enterprise fund/business-type activities, and the discretely presented component unit was restated. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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, 2016, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lehmann Johnson 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, 2015.

### Financial Highlights

- The County implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, in the current year. In addition to expanded disclosure requirements, the County is required to report its net pension liability on the statement of net position. At December 31, 2015, the net pension liability of the County amounted to \$5,284,673.
- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12,248,697 (net position). Of this amount, \$4,193,477 (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 \$1,001,613.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$6,112,471, an increase of \$523,763 in comparison with the prior year. Approximately 30.6 percent of total governmental fund balance or \$1,870,734 is unassigned fund balance.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$1,889,352 or 29.8 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, and the Sportsplex.

# 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 major special revenue fund. Budgetary comparison statements have been provided for these 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 and Sportsplex activities. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County had no internal service funds at December 31, 2015.

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 are considered to be major funds of the County.

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

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

## 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 immediately following the required supplementary information.

#### Government-Wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,248,697 at the close of the most recent fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 8,688,309	\$ 8,142,858	\$ 5,683,359	\$ 5,776,057	\$14,371,668	\$13,918,915
Capital assets, net	2,439,564	2,208,458	4,458,562	4,606,956	6,898,126	6,815,414
<b>Total assets</b>	<b>11,127,873</b>	<b>10,351,316</b>	<b>10,141,921</b>	<b>10,383,013</b>	<b>21,269,794</b>	<b>20,734,329</b>
Deferred outflows of resources	1,060,108	-	21,635	-	1,081,743	-
Long-term liabilities	230,003	222,179	2,320,000	2,735,000	2,550,003	2,957,179
Other liabilities	5,597,410	481,728	139,828	382,403	5,737,238	864,131
<b>Total liabilities</b>	<b>5,827,413</b>	<b>703,907</b>	<b>2,459,828</b>	<b>3,117,403</b>	<b>8,287,241</b>	<b>3,821,310</b>
Deferred inflows of resources	1,097,831	1,106,078	717,768	722,637	1,815,599	1,828,715
Net position:						
Net investment in capital assets	2,439,564	2,208,458	2,138,562	1,871,956	4,578,126	4,080,414
Restricted	3,477,094	3,654,331	-	-	3,477,094	3,654,331
Unrestricted (deficit)	(653,921)	2,678,542	4,847,398	4,671,017	4,193,477	7,349,559
<b>Total net position</b>	<b>\$ 5,262,737</b>	<b>\$ 8,541,331</b>	<b>\$ 6,985,960</b>	<b>\$ 6,542,973</b>	<b>\$12,248,697</b>	<b>\$15,084,304</b>

A portion of the County's net position, \$4,578,126 (37.4 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 \$3,477,094 (28.4 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 \$4,193,477 (34.2 percent) to meet its ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances, 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, 2015.

# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	\$ 2,975,393	\$ 2,474,626	\$ 771,569	\$ 854,938	\$ 3,746,962	\$ 3,329,564
Operating grants	1,340,817	1,216,498	-	-	1,340,817	1,216,498
Capital grants	3,344	400,478	-	-	3,344	400,478
General revenues:						
Property taxes	5,424,496	5,046,271	732,415	725,221	6,156,911	5,771,492
Convention facility tax	71,494	129,679	-	-	71,494	129,679
Unrestricted investment earnings	31,801	14,929	4,170	82,775	35,971	97,704
Other revenue	154,143	246,043	-	-	154,143	246,043
<b>Total revenues</b>	<b>10,001,488</b>	<b>9,528,524</b>	<b>1,508,154</b>	<b>1,662,934</b>	<b>11,509,642</b>	<b>11,191,458</b>
Expenses:						
Legislative	282,791	291,025	-	-	282,791	291,025
Judicial	1,323,931	1,111,997	-	-	1,323,931	1,111,997
General government	1,773,290	1,770,649	-	-	1,773,290	1,770,649
Public safety	3,756,972	3,436,590	-	-	3,756,972	3,436,590
Public works	138,720	97,981	-	-	138,720	97,981
Health & welfare	1,549,857	1,419,749	-	-	1,549,857	1,419,749
Community & economic development	284,836	309,580	-	-	284,836	309,580
Recreation & culture	409,209	425,910	-	-	409,209	425,910
Other	-	447,695	-	-	-	447,695
Tax collection	-	-	282,699	229,375	282,699	229,375
Sportsplex	-	-	705,724	710,297	705,724	710,297
<b>Total expenses</b>	<b>9,519,606</b>	<b>9,311,176</b>	<b>988,423</b>	<b>939,672</b>	<b>10,508,029</b>	<b>10,250,848</b>
<b>Change in net position</b>	<b>481,882</b>	<b>217,348</b>	<b>519,731</b>	<b>723,262</b>	<b>1,001,613</b>	<b>940,610</b>
Net position:						
Beginning of year	8,541,331	8,323,983	6,542,973	5,819,711	15,084,304	14,143,694
Restatement for implementation of GASB 68	(3,760,476)	-	(76,744)	-	(3,837,220)	-
<b>End of year</b>	<b>\$ 5,262,737</b>	<b>\$ 8,541,331</b>	<b>\$ 6,985,960</b>	<b>\$ 6,542,973</b>	<b>\$ 12,248,697</b>	<b>\$ 15,084,304</b>

The County's net position increased by \$1,001,613 during the current fiscal year. Governmental activities accounted for \$481,882, or 48.1 percent of this increase, with business-type activities accounting for the remaining \$519,731 or 51.9 percent.

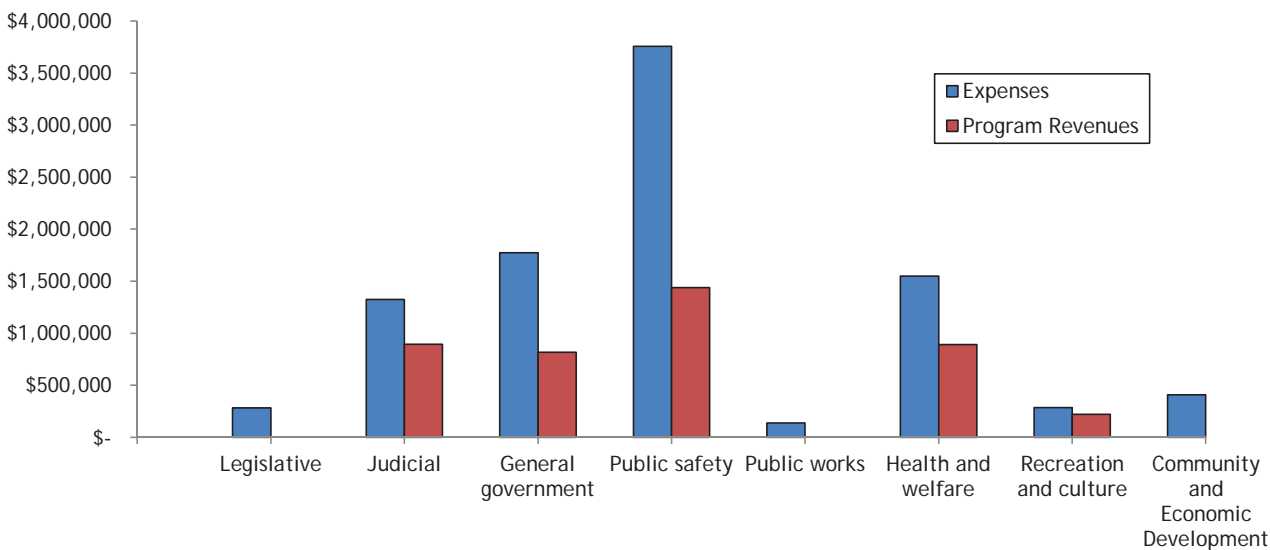
# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

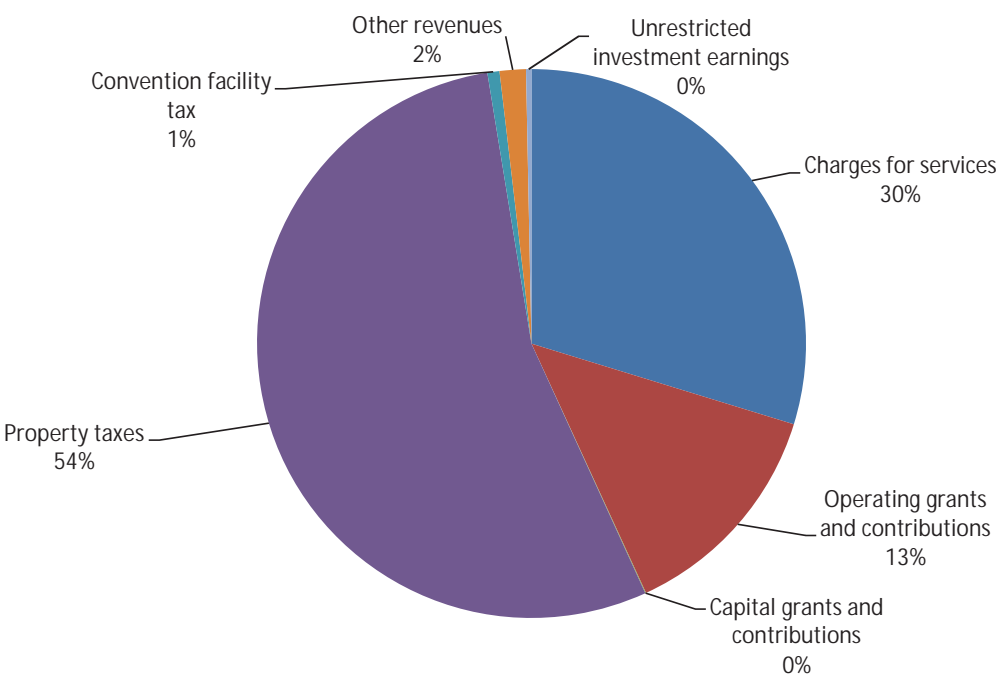
**Governmental Activities.** Governmental activities increased the County's net position by \$481,882. Key elements of this increase are as follows:

- Property tax revenues increased by \$379,225 over the prior year. This increase was mostly due to an extra voted millage for the Commission on Aging.

Expenses and Program Revenues - Governmental Activities



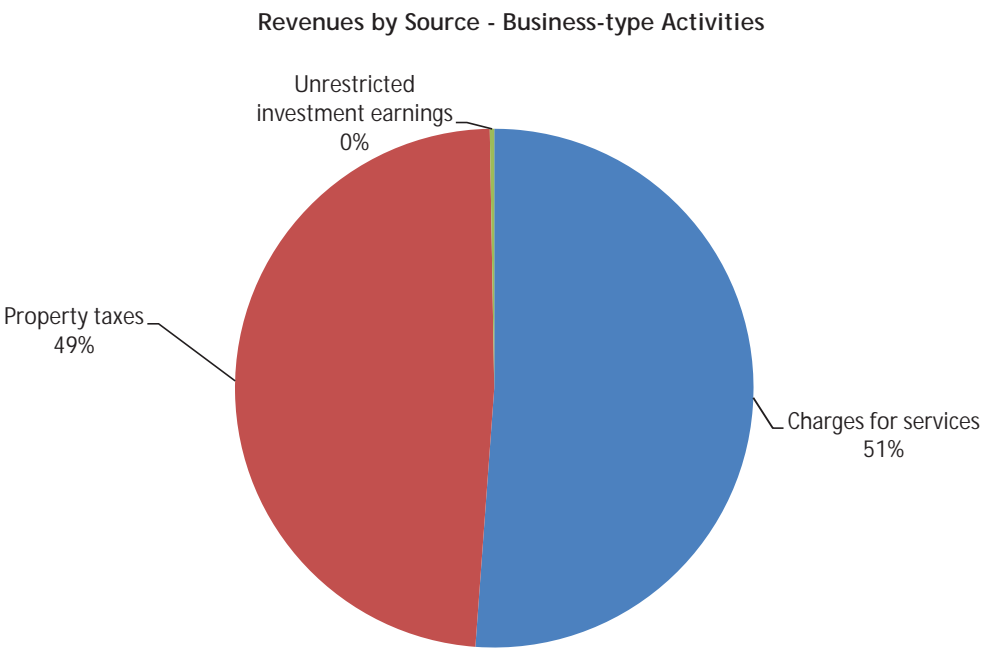
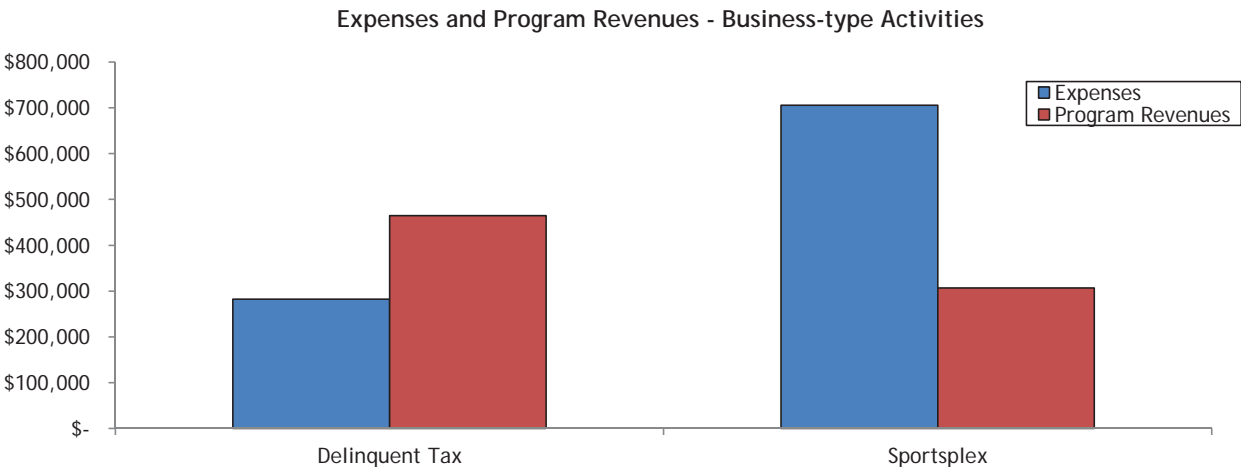
Revenues by Source - Governmental Activities



KALKASKA COUNTY, MICHIGAN

Management's Discussion and Analysis

**Business-type Activities.** Business-type activities increased the County’s net position by \$519,731. This increase is primarily due to receipt of interest and penalties on delinquent taxes.



# KALKASKA COUNTY, MICHIGAN

## Management's Discussion and Analysis

### Financial Analysis of the County's Funds

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$6,112,471, an increase of \$523,763 in comparison with the prior year. Of this amount, 30.6 percent (\$1,870,734) 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) (\$194,580); B) Restricted for use per various external agreements (\$2,641,782); or C) is committed through formal action of the County Board (\$1,405,375).

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 \$1,889,352 while total fund balance amounted to \$2,597,023. 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 29.8 percent of total General Fund expenditures, while total fund balance represents 41 percent of that same amount.

The fund balance of the County's General Fund increased by \$494,108 during the current fiscal year. This was due to sound budgeting and several areas noted below that were underspent.

**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, 2015 was \$4,847,398, with the Delinquent Tax and Sportsplex Fund reporting unrestricted net position of \$4,632,432 and \$214,966, respectively. The net position of the Delinquent Tax and Sportsplex Funds increased \$186,088 and \$333,643 respectively. The primary reason for the increases in net position were due to revenues in excess of expenditures. 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.

### General Fund Budgetary Highlights

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

- During the year, actual expenditures for the year were \$861,957 less than budgeted.
- Property tax and related payments-in-lieu of taxes received were approximately \$75,000 more than budgeted.
- Public safety expenditures were \$322,955 less than budgeted. This includes approximately \$90,000 under budget for jail expenditures. Such expenditures are volatile and difficult to predict.
- The total expenditures were approximately 12% under budget. The County has made considerable efforts to adequate level of service while setting aside funds for future needs.

## KALKASKA COUNTY, MICHIGAN

### Management's Discussion and Analysis

#### Capital Asset and Debt Administration

**Capital Assets.** The County's capital assets for its governmental and business-type activities as of December 31, 2015 amounted to \$6,898,126 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, machinery and equipment, motor vehicles, drains and utility systems. The total increase of \$82,712 in the County's investment in capital assets for the current fiscal year was 1.2 percent (a 10.5 percent increase for governmental activities and a 3.2 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included:

- Two police vehicles in the amount of \$26,694 each.
- Equipment and construction costs at the Recycling Center in the amount of \$251,815 for replacement of assets lost in a fire.
- Land purchased in the amount of \$171,194 for a future library building project.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 452,521	\$ 281,327	\$ -	\$ -	\$ 452,521	\$ 281,327
Construction in progress	143,729	-	-	-	143,729	-
Buildings	1,220,132	1,337,393	4,426,659	4,561,952	5,646,791	5,899,345
Land improvements	97,608	107,986	-	-	97,608	107,986
Machinery and equipment	525,574	481,752	31,903	45,004	557,477	526,756
<b>Total capital assets, net</b>	<b>\$ 2,439,564</b>	<b>\$ 2,208,458</b>	<b>\$ 4,458,562</b>	<b>\$ 4,606,956</b>	<b>\$ 6,898,126</b>	<b>\$ 6,815,414</b>

Additional information on the County's capital assets can be found in Note 8 of this report.

**Long-term Debt.** At the end of the current fiscal year, the County had total long-term debt outstanding of \$2,550,003.

	Installment and Other Debt					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
2010 refunding bonds	\$ -	\$ -	\$ 2,320,000	\$ 2,735,000	\$ 2,320,000	\$ 2,735,000
Compensated absences	230,003	222,179	-	-	230,003	222,179
<b>Total long-term debt</b>	<b>\$ 230,003</b>	<b>\$ 222,179</b>	<b>\$ 2,320,000</b>	<b>\$ 2,735,000</b>	<b>\$ 2,550,003</b>	<b>\$ 2,957,179</b>

The County's total long-term debt decreased by \$407,176 (13.8 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 Note 9 of this report.



## KALKASKA COUNTY, MICHIGAN

### Management's Discussion and Analysis

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

- The County state revenue sharing is expected to exceed \$200,000 for the year.
- The County has been seeing an increase in building maintenance and recognizes the need to allocate future monies to have funds available for repairs and maintenance.
- Per the Fund Balance Policy the County will maintain a minimum unassigned fund balance in its General Fund of 20 percent of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.
- The County is preparing to see significant increases in required payments for retiree retirement and health care costs in the upcoming year.
- The County approved salary and wage increases in the 2016 year.

The County considered these factors in preparing the County's budget for the 2016 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.

## BASIC FINANCIAL STATEMENTS

# KALKASKA COUNTY, MICHIGAN

## Statement of Net Position

December 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
<b>Assets</b>				
Cash and cash equivalents	\$ 5,596,360	\$ 4,071,279	\$ 9,667,639	\$ 909,169
Receivables, net	2,667,721	1,576,846	4,244,567	1,579,343
Internal balances	(25,000)	25,000	-	-
Inventories	-	2,009	2,009	324,425
Prepays	194,580	2,864	197,444	68,651
Net other postemployment benefits asset	254,648	5,361	260,009	-
Capital assets not being depreciated	596,250	-	596,250	5,238,836
Capital assets being depreciated, net	1,843,314	4,458,562	6,301,876	14,988,838
<b>Total assets</b>	<b>11,127,873</b>	<b>10,141,921</b>	<b>21,269,794</b>	<b>23,109,262</b>
<b>Deferred outflows of resources</b>				
Deferred pension amounts	1,060,108	21,635	1,081,743	306,380
<b>Liabilities</b>				
Payables and accrued liabilities	418,430	34,135	452,565	252,708
Long-term liabilities:				
Due within one year	46,000	400,000	446,000	113,523
Due in more than one year	184,003	1,920,000	2,104,003	677,747
Net pension liability	5,178,980	105,693	5,284,673	5,177,272
Net other postemployment benefits obligation	-	-	-	979,171
<b>Total liabilities</b>	<b>5,827,413</b>	<b>2,459,828</b>	<b>8,287,241</b>	<b>7,200,421</b>
<b>Deferred inflows of resources</b>				
Taxes levied for a subsequent period	1,097,831	717,768	1,815,599	703,000
<b>Net position</b>				
Net investment in capital assets	2,439,564	2,138,562	4,578,126	19,471,013
Restricted for:				
Public safety	992,530	-	992,530	-
Health and welfare	1,071,567	-	1,071,567	-
Community and economic development	813,324	-	813,324	-
Recreation and culture	375,612	-	375,612	-
Child support enforcement	54,544	-	54,544	-
Enabling legislation	62,675	-	62,675	-
Other state mandated programs	106,842	-	106,842	-
Unrestricted (deficit)	(653,921)	4,847,398	4,193,477	(3,958,792)
<b>Total net position</b>	<b>\$ 5,262,737</b>	<b>\$ 6,985,960</b>	<b>\$ 12,248,697</b>	<b>\$ 15,512,221</b>

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Activities

For the Year Ended December 31, 2015

		Program Revenues			
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary government					
Governmental activities:					
Legislative	\$ 282,791	\$ -	\$ -	\$ -	\$ (282,791)
Judicial	1,323,931	562,304	332,334	-	(429,293)
General government	1,773,290	452,315	364,930	-	(956,045)
Public safety	3,756,972	1,035,892	402,453	-	(2,318,627)
Public works	138,720	-	-	-	(138,720)
Health and welfare	1,549,857	723,019	167,087	-	(659,751)
Community and economic development	284,836	-	60,214	-	(224,622)
Recreation and culture	409,209	201,863	13,799	3,344	(190,203)
Total governmental activities	9,519,606	2,975,393	1,340,817	3,344	(5,200,052)
Business-type activities:					
Tax collection	282,699	464,897	-	-	182,198
Sportsplex	705,724	306,672	-	-	(399,052)
Total business-type activities	988,423	771,569	-	-	(216,854)
Total primary government	\$ 10,508,029	\$ 3,746,962	\$ 1,340,817	\$ 3,344	\$ (5,416,906)
Component unit					
Road Commission	\$ 5,359,222	\$ 91,477	\$ 3,409,738	\$ 1,990,643	\$ 132,636

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# KALKASKA COUNTY, MICHIGAN

## Statement of Activities

For the Year Ended December 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
<b>Changes in net position</b>				
Net revenue (expense)	\$ (5,200,052)	\$ (216,854)	\$ (5,416,906)	\$ 132,636
General revenues:				
Property taxes	5,424,496	732,415	6,156,911	708,183
Convention facility tax	71,494	-	71,494	-
Unrestricted investment earnings	31,801	4,170	35,971	-
Other revenue	154,143	-	154,143	-
Total general revenues	5,681,934	736,585	6,418,519	708,183
Change in net position	481,882	519,731	1,001,613	840,819
Net position beginning of year, as restated	4,780,855	6,466,229	11,247,084	14,671,402
Net position, end of year	\$ 5,262,737	\$ 6,985,960	\$ 12,248,697	\$ 15,512,221

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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, 2015

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 2,190,937	\$ 10,866	\$ 1,012,806	\$ 2,381,751	\$ 5,596,360
Receivables:					
Accounts	5,749	-	2,174	-	7,923
Taxes	430,415	-	717,415	354,566	1,502,396
Loans	-	804,929	-	-	804,929
Due from other governments	107,569	-	2,175	242,729	352,473
Prepays	162,765	-	3,390	28,425	194,580
<b>Total assets</b>	<b>\$ 2,897,435</b>	<b>\$ 815,795</b>	<b>\$ 1,737,960</b>	<b>\$ 3,007,471</b>	<b>\$ 8,458,661</b>
<b>Liabilities</b>					
Accounts payable	\$ 251,056	\$ 2,471	\$ 12,659	\$ 85,106	\$ 351,292
Accrued liabilities	41,982	-	4,454	13,328	59,764
Due to other governments	7,374	-	-	-	7,374
Due to other funds	-	-	-	25,000	25,000
<b>Total liabilities</b>	<b>300,412</b>	<b>2,471</b>	<b>17,113</b>	<b>123,434</b>	<b>443,430</b>
<b>Deferred inflows of resources</b>					
Taxes levied for a subsequent period	-	-	732,416	365,415	1,097,831
Unavailable revenue - loans receivable	-	804,929	-	-	804,929
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>804,929</b>	<b>732,416</b>	<b>365,415</b>	<b>1,902,760</b>
<b>Fund balances</b>					
Nonspendable	162,765	-	3,390	28,425	194,580
Restricted	-	8,395	985,041	1,648,346	2,641,782
Committed	544,906	-	-	860,469	1,405,375
Unassigned (deficit)	1,889,352	-	-	(18,618)	1,870,734
<b>Total fund balances</b>	<b>2,597,023</b>	<b>8,395</b>	<b>988,431</b>	<b>2,518,622</b>	<b>6,112,471</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,897,435</b>	<b>\$ 815,795</b>	<b>\$ 1,737,960</b>	<b>\$ 3,007,471</b>	<b>\$ 8,458,661</b>

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

## KALKASKA COUNTY, MICHIGAN

### Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
December 31, 2015

Fund balances - total governmental funds	\$ 6,112,471
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Amounts reported for *governmental activities* in the statement of net position are different because:

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

Capital assets not being depreciated	596,250
Capital assets being depreciated, net	1,843,314

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

Net other postemployment benefits asset	254,648
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The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.

Deferred loans receivable	804,929
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Compensated absences	(230,003)
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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	(5,178,980)
Deferred outflows related to the net pension liability	<u>1,060,108</u>

Net position of governmental activities	<u><u>\$ 5,262,737</u></u>
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The accompanying notes are an integral part of these basic financial statements.



# KALKASKA COUNTY, MICHIGAN

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

Governmental Funds

For the Year Ended December 31, 2015

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 4,296,620	\$ -	\$ 754,874	\$ 373,002	\$ 5,424,496
Licenses and permits	44,763	-	-	270,793	315,556
Intergovernmental:					
Federal	65,488	147,446	-	208,398	421,332
State	752,711	-	-	204,879	957,590
Local	-	-	-	31,866	31,866
Charges for services	1,033,055	-	371,248	906,389	2,310,692
Fines and forfeitures	1,600	-	-	181,469	183,069
Interest	12,044	14	1,142	6,485	19,685
Rents	132,900	-	-	45,292	178,192
Donations	-	-	-	3,344	3,344
Other	57,690	12,786	-	85,190	155,666
<b>Total revenues</b>	<b>6,396,871</b>	<b>160,246</b>	<b>1,127,264</b>	<b>2,317,107</b>	<b>10,001,488</b>
<b>Expenditures</b>					
Current:					
Legislative	216,120	-	-	-	216,120
Judicial	886,497	-	-	306,984	1,193,481
General government	1,833,174	-	-	-	1,833,174
Public safety	2,514,253	-	-	782,390	3,296,643
Public works	114,594	-	-	-	114,594
Health and welfare	248,572	-	853,504	630,844	1,732,920
Community and economic development	187,092	173,994	-	-	361,086
Recreation and culture	-	-	-	530,702	530,702
Other functions	337,625	-	-	-	337,625
<b>Total expenditures</b>	<b>6,337,927</b>	<b>173,994</b>	<b>853,504</b>	<b>2,250,920</b>	<b>9,616,345</b>
Revenues over (under) expenditures	58,944	(13,748)	273,760	66,187	385,143
<b>Other financing sources (uses)</b>					
Transfers in	334,836	-	-	159,243	494,079
Transfers out	(38,292)	-	-	(455,787)	(494,079)
Insurance recoveries	138,620	-	-	-	138,620
<b>Total other financing sources (uses)</b>	<b>435,164</b>	<b>-</b>	<b>-</b>	<b>(296,544)</b>	<b>138,620</b>
<b>Net change in fund balances</b>	<b>494,108</b>	<b>(13,748)</b>	<b>273,760</b>	<b>(230,357)</b>	<b>523,763</b>
Fund balances, beginning of year	2,102,915	22,143	714,671	2,748,979	5,588,708
<b>Fund balances, end of year</b>	<b>\$ 2,597,023</b>	<b>\$ 8,395</b>	<b>\$ 988,431</b>	<b>\$ 2,518,622</b>	<b>\$ 6,112,471</b>

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

## KALKASKA COUNTY, MICHIGAN

### Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended December 31, 2015

Net change in fund balances - total governmental funds	\$ 523,763
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Purchases of capital assets	546,879
Depreciation expense	(315,773)

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	83,280
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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	(7,824)
Change in the net pension liability and related deferred amounts	(358,396)
Change in the net other postemployment benefits asset	9,953

Change in net position of governmental activities	<u>\$ 481,882</u>
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The accompanying notes are an integral part of these basic financial statements.

# KALKASKA COUNTY, MICHIGAN

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

Budget and Actual - General Fund

For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 4,364,090	\$ 4,364,090	\$ 4,296,620	\$ (67,470)
Licenses and permits	44,450	44,450	44,763	313
Intergovernmental:				
Federal	60,000	69,961	65,488	(4,473)
State	725,524	757,455	752,711	(4,744)
Charges for services	926,148	945,303	1,033,055	87,752
Fines and forfeitures	-	-	1,600	1,600
Interest	10,650	10,650	12,044	1,394
Rents	121,615	121,615	132,900	11,285
Other	41,250	60,614	57,690	(2,924)
<b>Total revenues</b>	<b>6,293,727</b>	<b>6,374,138</b>	<b>6,396,871</b>	<b>22,733</b>
<b>Expenditures</b>				
Current:				
Legislative	228,201	244,098	216,120	(27,978)
Judicial	914,794	936,067	886,497	(49,570)
General government	1,865,657	2,098,410	1,833,174	(265,236)
Public safety	2,735,649	2,837,208	2,514,253	(322,955)
Public works	123,652	127,971	114,594	(13,377)
Health and welfare	256,322	280,654	248,572	(32,082)
Community and economic development	250,142	250,576	187,092	(63,484)
Other functions	324,900	424,900	337,625	(87,275)
<b>Total expenditures</b>	<b>6,699,317</b>	<b>7,199,884</b>	<b>6,337,927</b>	<b>(861,957)</b>
Revenues over (under) expenditures	(405,590)	(825,746)	58,944	884,690
<b>Other financing sources (uses)</b>				
Transfers in	256,577	275,921	334,836	58,915
Transfers out	(10,000)	(12,478)	(38,292)	(25,814)
Insurance recoveries	21,500	21,500	138,620	117,120
<b>Total other financing sources (uses)</b>	<b>268,077</b>	<b>284,943</b>	<b>435,164</b>	<b>150,221</b>
<b>Net change in fund balance</b>	<b>(137,513)</b>	<b>(540,802)</b>	<b>494,108</b>	<b>1,034,910</b>
Fund balance, beginning of year	2,102,915	2,102,915	2,102,915	-
<b>Fund balance, end of year</b>	<b>\$ 1,965,402</b>	<b>\$ 1,562,113</b>	<b>\$ 2,597,023</b>	<b>\$ 1,034,910</b>

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

## KALKASKA COUNTY, MICHIGAN

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

Budget and Actual - Housing Special Revenue Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Intergovernmental:				
Federal	\$ -	\$ 134,000	\$ 147,446	\$ 13,446
Interest	-	-	14	14
Other	-	15,000	12,786	(2,214)
	<u>-</u>	<u>15,000</u>	<u>12,786</u>	<u>(2,214)</u>
<b>Total revenues</b>	-	149,000	160,246	11,246
<b>Expenditures</b>				
Current:				
Community and economic development	-	167,000	173,994	6,994
	<u>-</u>	<u>167,000</u>	<u>173,994</u>	<u>6,994</u>
<b>Net change in fund balance</b>	-	(18,000)	(13,748)	4,252
Fund balance, beginning of year	<u>22,143</u>	<u>22,143</u>	<u>22,143</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 22,143</u>	<u>\$ 4,143</u>	<u>\$ 8,395</u>	<u>\$ 4,252</u>

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

## KALKASKA COUNTY, MICHIGAN

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

Budget and Actual - Commission on Aging Special Revenue Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 809,527	\$ 809,527	\$ 754,874	\$ (54,653)
Charges for services	375,619	379,192	371,248	(7,944)
Interest	-	-	1,142	1,142
<b>Total revenues</b>	<b>1,185,146</b>	<b>1,188,719</b>	<b>1,127,264</b>	<b>(61,455)</b>
<b>Expenditures</b>				
Current:				
Health and welfare	1,185,146	1,188,296	853,504	(334,792)
<b>Net change in fund balance</b>	<b>-</b>	<b>423</b>	<b>273,760</b>	<b>273,337</b>
Fund balance, beginning of year	714,671	714,671	714,671	-
<b>Fund balance, end of year</b>	<b>\$ 714,671</b>	<b>\$ 715,094</b>	<b>\$ 988,431</b>	<b>\$ 273,337</b>

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Net Position

Proprietary Funds

December 31, 2015

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 3,370,147	\$ 701,132	\$ 4,071,279
Receivables:			
Taxes	748,888	689,176	1,438,064
Interest and administrative fees	138,782	-	138,782
Due from other funds	376,484	-	376,484
Inventories	-	2,009	2,009
Prepays	-	2,864	2,864
Total current assets	4,634,301	1,395,181	6,029,482
Noncurrent assets:			
Capital assets being depreciated, net	-	4,458,562	4,458,562
Net other postemployment benefits asset	-	5,361	5,361
Total noncurrent assets	-	4,463,923	4,463,923
<b>Total assets</b>	4,634,301	5,859,104	10,493,405
<b>Deferred outflows of resources</b>			
Deferred pension amounts	-	21,635	21,635
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	1,869	11,048	12,917
Accrued liabilities	-	2,628	2,628
Accrued interest payable	-	18,590	18,590
Due to other funds	-	351,484	351,484
Long-term debt, current portion	-	400,000	400,000
Total current liabilities	1,869	783,750	785,619
Noncurrent liabilities:			
Long-term debt, net of current portion	-	1,920,000	1,920,000
Net pension liability	-	105,693	105,693
Total noncurrent liabilities	-	2,025,693	2,025,693
<b>Total liabilities</b>	1,869	2,809,443	2,811,312
<b>Deferred inflows of resources</b>			
Taxes levied for a subsequent period	-	717,768	717,768
<b>Net position</b>			
Net investment in capital assets	-	2,138,562	2,138,562
Unrestricted	4,632,432	214,966	4,847,398
<b>Total net position</b>	\$ 4,632,432	\$ 2,353,528	\$ 6,985,960

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

# KALKASKA COUNTY, MICHIGAN

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

Proprietary Funds

For the Year Ended December 31, 2015

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
<b>Operating revenues</b>			
Charges for services	\$ 312,963	\$ 306,672	\$ 619,635
Interest and penalties	151,934	-	151,934
<b>Total operating revenues</b>	<u>464,897</u>	<u>306,672</u>	<u>771,569</u>
<b>Operating expenses</b>			
Salaries	-	175,651	175,651
Fringe benefits	-	61,321	61,321
Depreciation	-	148,394	148,394
Other operating expenses	271,970	243,025	514,995
<b>Total operating expenses</b>	<u>271,970</u>	<u>628,391</u>	<u>900,361</u>
<b>Operating income (loss)</b>	<u>192,927</u>	<u>(321,719)</u>	<u>(128,792)</u>
<b>Nonoperating revenues (expenses)</b>			
Property taxes	-	732,415	732,415
Interest revenue	3,890	280	4,170
Interest expense	(10,729)	(77,333)	(88,062)
<b>Total nonoperating revenues (expenses)</b>	<u>(6,839)</u>	<u>655,362</u>	<u>648,523</u>
<b>Change in net position</b>	<u>186,088</u>	<u>333,643</u>	<u>519,731</u>
<b>Net position, beginning of year, as restated</b>	<u>4,446,344</u>	<u>2,019,885</u>	<u>6,466,229</u>
<b>Net position, end of year</b>	<u>\$ 4,632,432</u>	<u>\$ 2,353,528</u>	<u>\$ 6,985,960</u>

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, 2015

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
<b>Cash flows from operating activities</b>			
Receipts from customers and users	\$ 648,234	\$ 299,169	\$ 947,403
Payments to vendors	(270,190)	(260,816)	(531,006)
Payments for personnel services	-	(237,265)	(237,265)
<b>Net cash provided by (used in) operating activities</b>	<b>378,044</b>	<b>(198,912)</b>	<b>179,132</b>
<b>Cash flows from noncapital financing activities</b>			
Local tax levy received	-	727,546	727,546
Payments to other funds	(39,831)	(47,986)	(87,817)
Proceeds from notes payable	500,000	-	500,000
Principal paid on notes payable	(825,000)	-	(825,000)
Interest paid on notes payable	(10,729)	-	(10,729)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(375,560)</b>	<b>679,560</b>	<b>304,000</b>
<b>Cash flows from capital and related financing activities</b>			
Principal paid on long-term debt	-	(415,000)	(415,000)
Interest paid on long-term debt	-	(80,056)	(80,056)
<b>Net cash used in capital and related financing activities</b>	<b>-</b>	<b>(495,056)</b>	<b>(495,056)</b>
<b>Cash flows from investing activities</b>			
Interest received	3,890	280	4,170
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>6,374</b>	<b>(14,128)</b>	<b>(7,754)</b>
Cash and cash equivalents, beginning of year	3,363,773	715,260	4,079,033
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,370,147</b>	<b>\$ 701,132</b>	<b>\$ 4,071,279</b>

continued...



# KALKASKA COUNTY, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2015

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 192,927	\$ (321,719)	\$ (128,792)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	148,394	148,394
Change in operating assets, deferred outflows of resources and liabilities that provided (used) cash:			
Taxes receivable	167,833	(7,502)	160,331
Interest receivable	15,504	-	15,504
Prepays	-	(2,864)	(2,864)
Accounts payable	1,780	(14,927)	(13,147)
Accrued liabilities	-	(7,398)	(7,398)
Net pension liability and related deferred amounts	-	7,314	7,314
Net other postemployment benefits asset	-	(210)	(210)
Net cash provided by (used in) operating activities	<u>\$ 378,044</u>	<u>\$ (198,912)</u>	<u>\$ 179,132</u>

concluded

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

# KALKASKA COUNTY, MICHIGAN

## Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2015

	Agency Funds	Other Post- employment Benefits Trust
<b>Assets</b>		
Cash and cash equivalents	\$ 400,283	\$ 138,716
Investments:		
Money market funds	-	30,916
Equity mutual funds	-	16,005
Debt mutual funds	-	73,886
Prepays	-	7,090
<b>Total assets</b>	<b>\$ 400,283</b>	<b>266,613</b>
<b>Liabilities</b>		
Due to other governments	\$ 45,883	-
Undistributed collections	313,569	-
Other liabilities	40,831	-
<b>Total liabilities</b>	<b>\$ 400,283</b>	<b>-</b>
<b>Net position restricted for</b>		
Other postemployment benefits		<b>\$ 266,613</b>

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

## KALKASKA COUNTY, MICHIGAN

### Statement of Changes in Fiduciary Net Position

Other Postemployment Benefits Trust

For the Year Ended December 31, 2015

#### Additions

Employer contributions	\$ 62,000
Retiree contributions	9,204
Investment loss	<u>(5,736)</u>

Total additions	65,468
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#### Deductions

Benefit payments	<u>57,037</u>
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Change in net position	8,431
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Net position, beginning of year	<u>258,182</u>
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Net position, end of year	<u><u>\$ 266,613</u></u>
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The accompanying notes are an integral part of these basic financial statements.

## NOTES TO FINANCIAL STATEMENTS

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### Reporting Entity

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

#### *Blended Component Unit*

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

#### *Discretely Presented Component Unit*

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### *Jointly Governed Organizations*

**North Central Michigan Mental Health Department** (the "Community Mental Health") - The County, in conjunction with the counties of Otsego, Emmet, Charlevoix and Cheboygan, has created the Community Mental Health. The Board of the Community Mental Health is composed of 12 members from each of the boards of the participating governments. The funding formula for the Community Mental Health operations is in accordance with an agreement approved by all of the member counties and the local contribution was frozen, by statute, at the amount contributed in year 2002. Kalkaska County appropriated \$61,875 to the Community Mental Health for the year ended December 31, 2015.

**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, 2015 the funding was 29.6%, 29.2%, and 41.2% 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 \$37,072 to the Court for the year ended December 31, 2015.

### *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.

The County reports the following major proprietary funds:

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

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

Additionally, the County reports the following fund types:

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

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

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

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

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

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

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

### Assets, 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).



# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

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

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

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

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

Bankers' acceptances of United States banks.

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

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

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

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

### *Receivables and Payables*

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

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

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

### *Other Assets*

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

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

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 market value as of the donation date.

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

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

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

	Years
Buildings and improvements	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 change in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 14.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### *Compensated Absences*

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

### *Long-term Obligations*

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

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

### *Deferred Inflows of Resources*

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

### *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.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

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.

### *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.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 2. BUDGETARY INFORMATION

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

1. During the month of July, budget worksheets, which list their last year's budget along with their expenditures for the last six months, are sent to each department. Each department prepares their budget and returns it to the County Clerk. The Clerk totals and puts all the budgets in order and then turns the budgets over to the Commissioners. Then, the respective committees, which are each made up of three Commissioners, meet with the various department heads to discuss any changes to their particular budget.
2. Public hearings are conducted at the County Building to obtain taxpayer comments.
3. Prior to December 31st, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
4. Budget amendments are made by the County Commission as the need arises during the year.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations lapse at year end.
7. The original budget was amended during the year in compliance with the County procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the final budgetary expenditures as amended by the County Commission.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 3. ACCOUNTABILITY AND COMPLIANCE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the County were adopted on the department level basis for all governmental funds, which is the legal level of control. During the year ended December 31, 2015 the County incurred expenditures which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
Judicial:			
46th circuit trial court/ friend of the court	\$ 26,842	\$ 37,991	\$ 11,149
Public safety:			
Township deputies	137,309	144,547	7,238
Zero tolerance	36,153	36,811	658
Transfers out	12,478	38,292	25,814
Housing fund:			
Community and economic development	167,000	173,994	6,994
Reserve officers fund:			
Public safety	-	106	106
Friend of the court:			
Transfers out	-	43,142	43,142
Courthouse preservation:			
Judicial	34,900	54,158	19,258
Revenue sharing reserve:			
Transfers out	-	138,335	138,335

#### *Deficit Fund Balance*

At December 31, 2015 the County reported deficit fund balance in the Child Care special revenue fund of \$17,186.

### 4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2015:

	Primary Government	Component Units	Totals
<b>Statement of Net Position</b>			
Cash and cash equivalents	\$ 9,667,639	\$ 909,169	\$ 10,576,808
<b>Statement of Fiduciary Net Position</b>			
Other postemployment benefit trust fund:			
Cash and cash equivalents	138,716	-	138,716
Investments	120,807	-	120,807
Agency funds:			
Cash and cash equivalents	400,283	-	400,283
<b>Total</b>	<b>\$ 10,327,445</b>	<b>\$ 909,169</b>	<b>\$ 11,236,614</b>

## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

#### Deposits and investments

##### Primary Government

###### Bank deposits:

Checking and savings accounts (pooled)	\$ 7,854,012
Other checking and savings	752,434

###### Certificates of deposit:

Due within one year	1,049,653
Due in one to five years	106,931

Investments, at fair value	300,603
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###### Other postemployment benefit trust fund:

Checking and savings accounts (pooled)	138,716
Investments, at fair value	120,807

Cash on hand	4,289
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<b>Total Primary Government</b>	<b>10,327,445</b>
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##### Road Commission Component Unit

###### Bank deposits:

Checking and savings accounts	909,169
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<b>Total deposits and investments</b>	<b>\$ 11,236,614</b>
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*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, \$8,238,645 of the bank balance (excluding Road Commission) of \$10,051,440 was exposed to custodial credit risk because it was uninsured and uncollateralized. The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution with which it deposits County funds and assesses the level of risk of each institution; only those institutions with an acceptable level are used as depositories.

*Custodial Credit Risk - Investments.* Following is a summary of the County's investments as of December 31, 2015:

###### Pooled investments:

Michigan CLASS Government Investment Pool (S & P Rating AAAM)	<u>\$ 300,603</u>
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# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2015, none of the County's investments were exposed to custodial credit risk inasmuch as all investments are held in the name of the County.

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

### *Other Postemployment Benefits Trust Fund*

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

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

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

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

Following is a summary of other postemployment benefits trust investments as of December 31, 2015:

	Interest Rate	Maturity	Morningstar Rating	Market Value
Mutual funds:				
Money market funds	0.01%	n/a	n/a	\$ 30,916
Equity funds	n/a	n/a	★★★★★	16,005
Debt funds	n/a	n/a	★★	17,627
Debt funds	n/a	n/a	★★★	56,259
				<u>\$ 120,807</u>



# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

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

The amounts reported as money market funds in the statement of plan net position are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of the other postemployment benefits trust account as of December 31, 2015 was \$30,916, 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.

## 5. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	\$ 7,923	\$ -	\$ -
Taxes - current	1,502,396	689,176	681,861
Taxes - delinquent	-	748,888	-
Interest and administrative fees	-	138,782	-
Loans	804,929	-	-
Due from other governments	352,473	-	897,482
	<u>\$ 2,667,721</u>	<u>\$ 1,576,846</u>	<u>\$ 1,579,343</u>

Of the amount reported above for loans receivable in governmental activities, \$795,196 is not expected to be collected within one year.

## 6. PAYABLES

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 351,292	\$ 12,917	\$ 195,081
Accrued liabilities	59,764	2,628	36,670
Accrued interest payable	-	18,590	9,846
Due to other governments	7,374	-	11,111
	<u>\$ 418,430</u>	<u>\$ 34,135</u>	<u>\$ 252,708</u>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2015, was as follows:

	Due from Other Funds	Due to Other Funds
Nonmajor governmental funds	\$ -	\$ 25,000
Delinquent tax	376,484	-
Sportsplex	-	351,484
	<u>\$ 376,484</u>	<u>\$ 376,484</u>

For the year ended December 31, 2015, interfund transfers consisted of the following:

Transfers Out	Transfers in		
	General fund	Nonmajor governmental funds	Totals
General fund	\$ -	\$ 38,292	\$ 38,292
Nonmajor governmental fund	334,836	120,951	455,787
	<u>\$ 334,836</u>	<u>\$ 159,243</u>	<u>\$ 494,079</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, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 281,327	\$ 171,194	\$ -	\$ -	\$ 452,521
Construction in progress	-	143,729	-	-	143,729
	<u>281,327</u>	<u>314,923</u>	<u>-</u>	<u>-</u>	<u>596,250</u>
Capital assets, being depreciated:					
Buildings and improvements	6,223,253	44,860	-	-	6,268,113
Land improvements	597,651	-	-	-	597,651
Machinery & equipment	2,984,220	187,096	-	-	3,171,316
	<u>9,805,124</u>	<u>231,956</u>	<u>-</u>	<u>-</u>	<u>10,037,080</u>
Less accumulated depreciation for:					
Buildings and improvements	(4,885,860)	(162,121)	-	-	(5,047,981)
Land improvements	(489,665)	(10,378)	-	-	(500,043)
Machinery & equipment	(2,502,468)	(143,274)	-	-	(2,645,742)
	<u>(7,877,993)</u>	<u>(315,773)</u>	<u>-</u>	<u>-</u>	<u>(8,193,766)</u>
Total capital assets being depreciated, net	<u>1,927,131</u>	<u>(83,817)</u>	<u>-</u>	<u>-</u>	<u>1,843,314</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 2,208,458</u>	<u>\$ 231,106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,439,564</u>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 6,629,749	\$ -	\$ -	\$ -	\$ 6,629,749
Furniture, fixtures & equipment	305,076	-	-	-	305,076
	<u>6,934,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,934,825</u>
Less accumulated depreciation for:					
Buildings and improvements	(2,067,797)	(135,293)	-	-	(2,203,090)
Furniture, fixtures & equipment	(260,072)	(13,101)	-	-	(273,173)
	<u>(2,327,869)</u>	<u>(148,394)</u>	<u>-</u>	<u>-</u>	<u>(2,476,263)</u>
Total capital assets being depreciated, net	<u>\$ 4,606,956</u>	<u>\$ (148,394)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,458,562</u>

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

### Depreciation of governmental activities by function

Legislative	\$ 62,336
Judicial	21,030
General government	28,071
Public safety	134,869
Public works	8,155
Health and welfare	33,321
Community and economic development	475
Recreation and culture	27,516
	<u>\$ 315,773</u>

### Depreciation of business-type activities by function

Enterprise funds:	
Sportsplex	<u>\$ 148,394</u>

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 222,179	\$ 53,824	\$ (46,000)	\$ 230,003	\$ 46,000
<b>Business-type Activities</b>					
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	\$ 2,735,000	\$ -	\$ (415,000)	\$ 2,320,000	\$ 400,000

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

Year Ended December 31,	Business-type Activities	
	Principal	Interest
2016	\$ 400,000	\$ 68,985
2017	450,000	56,297
2018	495,000	41,560
2019	490,000	34,543
2020	485,000	8,738
	<u>\$ 2,320,000</u>	<u>\$ 210,123</u>

The compensated absence and net pension liability attributable to the governmental activities will be liquidated by the general fund.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 10. NOTES PAYABLE

The following is a summary of the changes in the notes payable for the year ended December 31, 2015:

	Beginning Balance	Additions	Deductions	Ending Balance
General Obligation Tax Notes:				
Series 2014	\$ 325,000	\$ -	\$ (325,000)	\$ -
Series 2015	-	500,000	(500,000)	-
	<u>\$ 325,000</u>	<u>\$ 500,000</u>	<u>\$ (825,000)</u>	<u>\$ -</u>

### 11. RISK MANAGEMENT

#### *Primary Government*

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

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

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

#### *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, 2015, there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

### 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 2015, for which revenue was recognized in the general fund, was \$732,416,220. The general operating tax rate for this levy was 5.4562 mills. The taxable value of real and personal property for 2014, for which revenue was recognized in all other funds, was \$737,334,910. The tax rates for these voted levies were 1.0000 mills assessed for services provided to senior citizens, 0.1168 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, and 0.2500 mills assessed for the Sportsplex.

### 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

#### Primary Government

#### *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](http://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 options available for certain bargaining units. Member contributions range from 0% to 5%.

# KALKASKA COUNTY, MICHIGAN

## Notes to Financial Statements

*Employees Covered by Benefit Terms.* At December 31, 2014, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	70
Inactive employees entitled to but not yet receiving benefits	23
Active employees	<u>103</u>
<b>Total membership</b>	<b><u>196</u></b>

*Contributions.* The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Employer contributions are expressed as a percentage of payroll for open divisions and as a fixed monthly amount for closed divisions as summarized in the following table:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
New Hires	Hybrid	Open	6.80%	0.00%
Teamsters	Defined Benefit	Closed	\$ 2,208	2.00%
Law Enforcement	Defined Benefit	Closed	26,517	0.00%
Commission on Aging	Defined Benefit	Closed	1,183	5.00%
Admin / Dept Heads	Defined Benefit	Closed	6,714	1.00%
Court Division	Defined Benefit	Closed	4,620	3.00%

*Net Pension Liability.* The County's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014.

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.25%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

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



## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted in 2008. (The MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

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	10.00%	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.25%</u>

*Discount Rate.* The discount rate used to measure the total pension liability is 8.25%. 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, 2014	\$ 17,935,931	\$ 14,098,711	3,837,220
Changes for the year:			
Service cost	354,494	-	354,494
Interest	1,449,248	-	1,449,248
Employer contributions	-	568,543	(568,543)
Employee contributions	-	69,217	(69,217)
Net investment income	-	(209,081)	209,081
Benefit payments, including refunds of employee contributions	(1,093,074)	(1,093,074)	-
Administrative expense	-	(30,654)	30,654
Other changes	41,736	-	41,736
Net changes	752,404	(695,049)	1,447,453
Balances at December 31, 2015	\$ 18,688,335	\$ 13,403,662	\$ 5,284,673

*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 8.25%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
County's net pension liability	\$ 7,369,732	\$ 5,284,673	\$ 3,520,201

*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, 2015, the County recognized pension expense of \$934,253. 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	\$ -	\$ -	\$ -
Changes in assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	1,081,743	-	1,081,743
<b>Total</b>	<b>\$ 1,081,743</b>	<b>\$ -</b>	<b>\$ 1,081,743</b>

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

Year Ended June 30,	Amount
2016	\$ 270,436
2017	270,436
2018	270,436
2019	270,435
<b>Total</b>	<b>\$ 1,081,743</b>

*Payable to the Pension Plan.* At December 31, 2015, the County reported a payable of \$52,763 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

## 15. OTHER POSTEMPLOYMENT BENEFITS

*Plan Description.* The Kalkaska County Retiree Medical Plan is a single-employer defined benefit healthcare plan administered by Kalkaska County and can be amended at its discretion. 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

*Funding Policy.* At December 31, 2012, the date of the most recent actuarial valuation, membership of the plan consisted of the following:

Active plan members	86
Retirees and beneficiaries receiving benefits	<u>11</u>
Total plan members	<u><u>97</u></u>

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

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

Annual required contribution	\$ 49,934
Interest on net OPEB asset	(9,944)
Adjustment to annual required contribution	<u>11,897</u>
Net OPEB cost (expense)	51,837
Contributions made	<u>(62,000)</u>
Change in net OPEB asset	(10,163)
Net OPEB asset, beginning of year	<u>(249,846)</u>
Net OPEB asset, end of year	<u><u>\$ (260,009)</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for 2015 and the previous two years were as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
2013	\$ 49,307	87.60%	\$ (238,610)
2014	50,764	122.13%	(249,846)
2015	51,837	119.61%	(260,009)

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.

## KALKASKA COUNTY, MICHIGAN

### Notes to Financial Statements

*Funded Status and Funding Progress.* As of December 31, 2012, the date of the most recent actuarial valuation, the Plan was 0 percent funded. The actuarial accrued liability for benefits was \$533,923, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$533,923. The covered payroll (annual payroll of active employees covered by the Plan) was \$3,156,876, and the ratio of the UAAL to the covered payroll was 16.9% percent.

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

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

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

The December 31, 2012 valuation was based on a discount rate of 4 percent. The actuarial assumptions included a post-retirement interest rate of 4 percent, annual healthcare cost increase of 8% for 2012 and down to 5% in 2015, annual cost increase for Delta Dental of 3%. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2015 was 24 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	\$ 162,765	\$ -	\$ 3,390	\$ 28,425	\$ 194,580
Restricted for:					
Judicial	-	-	-	50,534	50,534
Public safety	-	-	-	1,047,567	1,047,567
Community and economic development	-	8,395	-	104,264	112,659
Health and welfare	-	-	985,041	82,659	1,067,700
Recreation and culture	-	-	-	363,322	363,322
Total restricted	-	8,395	985,041	1,648,346	2,641,782
Committed for:					
Public safety	73,453	-	-	24,135	97,588
Self insurance	120,135	-	-	-	120,135
Capital improvements	44,979	-	-	599,740	644,719
Elections	55,903	-	-	-	55,903
Historic preservation	-	-	-	191,087	191,087
Equipment replacement	215,925	-	-	-	215,925
Other purposes	34,511	-	-	45,507	80,018
Total committed	544,906	-	-	860,469	1,405,375
Unassigned (deficit)	1,889,352	-	-	(18,618)	1,870,734
Total fund balances, governmental funds	\$ 2,597,023	\$ 8,395	\$ 988,431	\$ 2,518,622	\$ 6,112,471

# 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, 2015, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 596,250	\$ -	\$ 5,238,836
Capital assets being depreciated, net	1,843,314	4,458,562	14,988,838
	<u>2,439,564</u>	<u>4,458,562</u>	<u>20,227,674</u>
Related debt:			
Total bonds and loans payable	-	2,320,000	-
Capital lease	-	-	756,661
	<u>-</u>	<u>2,320,000</u>	<u>756,661</u>
Net investment in capital assets	<u>\$ 2,439,564</u>	<u>\$ 2,138,562</u>	<u>\$ 19,471,013</u>

### 18. RESTATEMENT

The County adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities, Sportsplex enterprise fund/business-type activities, and the discretely presented component unit decreased by \$3,760,476, \$76,744, and \$4,133,871, respectively.

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## 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
<b>Total pension liability</b>	
Service cost	\$ 354,494
Interest	1,449,248
Benefit payments, including refunds of employee contributions	(1,093,074)
Other changes	41,736
<b>Net change in total pension liability</b>	<u>752,404</u>
Total pension liability, beginning of year	<u>17,935,931</u>
<b>Total pension liability, end of year</b>	<u>18,688,335</u>
<b>Plan fiduciary net position</b>	
Employer contributions	568,543
Employee contributions	69,217
Net investment income	(209,081)
Benefit payments, including refunds of employee contributions	(1,093,074)
Administrative expense	(30,654)
<b>Net change in plan fiduciary net position</b>	<u>(695,049)</u>
Plan fiduciary net position, beginning of year	<u>14,098,711</u>
<b>Plan fiduciary net position, end of year</b>	<u>13,403,662</u>
<b>County's net pension liability</b>	<u>\$ 5,284,673</u>
Plan fiduciary net position as a percentage of total pension liability	71.7%
Covered-employee payroll	<u>\$ 3,453,033</u>
County's net pension liability as a percentage of covered-employee payroll	153.0%

#### 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-Employee 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%

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-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	\$ 568,543	\$ 568,543	\$ -	\$ 3,453,033	16.5%

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 December 31 which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

##### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	24 years
Asset valuation method	Open; 5-year smooth market
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.25%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2011 valuation. The next study is scheduled for 2016.
Mortality	50% Male - 50% Female blend of the 1994 Group Annuity Mortality Table. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

## 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)
12/31/2009	\$ -	\$ 619,540	\$ 619,540	0.0%	n/a	n/a
12/31/2012	-	533,923	533,923	0.0%	\$ 3,156,876	16.9%

#### Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2013	\$ 49,109	86.8%
2014	49,934	568.3%
2015	49,934	124.2%

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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, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Legislative:				
County board	\$ 228,201	\$ 244,098	\$ 216,120	\$ (27,978)
Judicial:				
Judicial control	883,831	904,205	843,585	(60,620)
46th circuit trial court/ friend of the court	26,263	26,842	37,991	11,149
Jury board	4,700	5,019	4,921	(98)
Total judicial	914,794	936,067	886,497	(49,570)
General government:				
Elections	36,700	37,202	21,509	(15,693)
County clerk	213,737	235,227	213,192	(22,035)
Equalization	162,837	177,621	159,030	(18,591)
Prosecuting attorney	391,492	400,354	348,534	(51,820)
Register of deeds	190,534	193,106	173,818	(19,288)
Survey Remonumentation	48,788	48,788	43,413	(5,375)
Treasurer	202,720	204,618	193,397	(11,221)
County government	81,481	85,943	70,722	(15,221)
Building and grounds	455,852	596,027	499,391	(96,636)
Various accounts	81,516	119,522	110,168	(9,354)
Total general government	1,865,657	2,098,410	1,833,174	(265,236)
Public safety:				
Law enforcement	771,567	814,954	768,809	(46,145)
Sheriff fleet	141,753	141,753	128,204	(13,549)
Court civil transports	116,648	116,648	58,962	(57,686)
Administration	309,341	322,519	281,739	(40,780)
Township deputies	129,978	137,309	144,547	7,238
Community corrections	84,424	84,584	51,011	(33,573)
Domestic violence grant	22,185	24,302	18,893	(5,409)
OHSP grant	-	9,961	7,361	(2,600)
Marine law enforcement	5,088	7,432	5,567	(1,865)
Snowmobile law enforcement	9,754	9,754	3,716	(6,038)
Secondary road patrol PA 416 grant	74,953	82,953	81,607	(1,346)
DNR ORV grant	30,000	30,000	20,938	(9,062)
Zero tolerance	29,573	36,153	36,811	658
Hunters safety class	-	205	205	-
Corrections Department/Jail	898,728	906,608	815,958	(90,650)
Zoning	94,064	94,407	73,080	(21,327)
Emergency preparedness	17,593	17,665	16,845	(820)
Total public safety	2,735,649	2,837,208	2,514,253	(322,955)

continued...

## KALKASKA COUNTY, MICHIGAN

### Schedule of Expenditures by Activity

Budget and Actual

General Fund

For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public works:				
Public works	\$ 123,652	\$ 127,971	\$ 114,594	\$ (13,377)
Health and welfare:				
Health department	224,032	224,032	209,650	(14,382)
Veteran's affairs	32,290	56,622	38,922	(17,700)
Total health and welfare	256,322	280,654	248,572	(32,082)
Community and economic development:				
MSU extension	78,946	79,380	76,081	(3,299)
Other appropriation	171,196	171,196	111,011	(60,185)
Total community and economic development	250,142	250,576	187,092	(63,484)
Other:				
Fringe	261,400	361,400	274,749	(86,651)
Other appropriation	63,500	63,500	62,876	(624)
Total other	324,900	424,900	337,625	(87,275)
Total expenditures	\$ 6,699,317	\$ 7,199,884	\$ 6,337,927	\$ (861,957)

concluded



# KALKASKA COUNTY, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2015

	Special Revenue Funds				
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Reserve Officers	Friend of the Court
<b>Assets</b>					
Cash and cash equivalents	\$ 13,200	\$ 23,474	\$ 22,753	\$ 7,425	\$ 7,913
Receivables:					
Taxes	-	-	-	-	-
Due from other governments	-	-	-	-	78,058
Prepays	-	-	-	-	4,010
<b>Total assets</b>	<u>\$ 13,200</u>	<u>\$ 23,474</u>	<u>\$ 22,753</u>	<u>\$ 7,425</u>	<u>\$ 89,981</u>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 659	\$ 61	\$ 106	\$ 8,362
Accrued liabilities	-	-	-	-	2,075
Due to other funds	-	-	-	-	25,000
<b>Total liabilities</b>	<u>-</u>	<u>659</u>	<u>61</u>	<u>106</u>	<u>35,437</u>
<b>Deferred inflows of resources</b>					
Taxes levied for a subsequent period	-	-	-	-	-
<b>Fund balances</b>					
Nonspendable	-	-	-	-	4,010
Restricted	13,200	-	-	7,319	50,534
Committed	-	22,815	22,692	-	-
Unassigned (deficit)	-	-	-	-	-
<b>Total fund balances</b>	<u>13,200</u>	<u>22,815</u>	<u>22,692</u>	<u>7,319</u>	<u>54,544</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 13,200</u>	<u>\$ 23,474</u>	<u>\$ 22,753</u>	<u>\$ 7,425</u>	<u>\$ 89,981</u>

Special Revenue Funds							
Animal Control Donation	Extension Strong Family Safe Child	Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/ Technology	Recycling
\$ 86,795	\$ 2,236	\$ 191,087	\$ 9,580	\$ 107,869	\$ 708,400	\$ 62,675	\$ 91,030
-	-	-	-	-	-	-	82,499
-	-	-	-	-	150,536	-	-
-	-	-	-	2,578	6,683	-	477
<u>\$ 86,795</u>	<u>\$ 2,236</u>	<u>\$ 191,087</u>	<u>\$ 9,580</u>	<u>\$ 110,447</u>	<u>\$ 865,619</u>	<u>\$ 62,675</u>	<u>\$ 174,006</u>
\$ 130	\$ -	\$ -	\$ -	\$ 2,010	\$ 7,579	\$ -	\$ 22,859
-	-	-	-	1,595	3,931	-	1,153
-	-	-	-	-	-	-	-
130	-	-	-	3,605	11,510	-	24,012
-	-	-	-	-	-	-	84,900
-	-	-	-	2,578	6,683	-	477
86,665	2,236	-	-	104,264	847,426	62,675	64,617
-	-	191,087	9,580	-	-	-	-
-	-	-	-	-	-	-	-
86,665	2,236	191,087	9,580	106,842	854,109	62,675	65,094
<u>\$ 86,795</u>	<u>\$ 2,236</u>	<u>\$ 191,087</u>	<u>\$ 9,580</u>	<u>\$ 110,447</u>	<u>\$ 865,619</u>	<u>\$ 62,675</u>	<u>\$ 174,006</u>

continued...

# KALKASKA COUNTY, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2015

	Special Revenue Funds				
	Corrections Officers Training	Community Corrections Plan	Animal Control	Law Library	Concealed Pistol Licensing
<b>Assets</b>					
Cash and cash equivalents	\$ 4,310	\$ -	\$ 14,071	\$ 3,304	\$ 3,354
Receivables:					
Taxes	-	-	94,590	-	-
Due from other governments	-	-	-	-	-
Prepays	-	-	955	-	-
<b>Total assets</b>	<u>\$ 4,310</u>	<u>\$ -</u>	<u>\$ 109,616</u>	<u>\$ 3,304</u>	<u>\$ 3,354</u>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ 3,466	\$ 2,693	\$ -
Accrued liabilities	-	-	980	-	-
Due to other funds	-	-	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>4,446</u>	<u>2,693</u>	<u>-</u>
<b>Deferred inflows of resources</b>					
Taxes levied for a subsequent period	-	-	97,411	-	-
<b>Fund balances</b>					
Nonspendable	-	-	955	-	-
Restricted	4,310	-	6,804	611	3,354
Committed	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	-
<b>Total fund balances</b>	<u>4,310</u>	<u>-</u>	<u>7,759</u>	<u>611</u>	<u>3,354</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 4,310</u>	<u>\$ -</u>	<u>\$ 109,616</u>	<u>\$ 3,304</u>	<u>\$ 3,354</u>

Special Revenue Funds						
County Library	Inmate Programs & Services	Portable Breathalyzer Testing	TNT Drug Awareness	Child Care	Veterans Trust	Marine Clearwater Township
\$ 373,153	\$ 15,913	\$ -	\$ 14,555	\$ (3,336)	\$ 2,129	\$ 13,578
177,477	-	-	-	-	-	-
-	-	-	-	14,135	-	-
12,290	-	-	-	1,432	-	-
<u>\$ 562,920</u>	<u>\$ 15,913</u>	<u>\$ -</u>	<u>\$ 14,555</u>	<u>\$ 12,231</u>	<u>\$ 2,129</u>	<u>\$ 13,578</u>
\$ 2,077	\$ -	\$ -	\$ -	\$ 28,561	\$ -	\$ -
2,738	-	-	-	856	-	-
-	-	-	-	-	-	-
4,815	-	-	-	29,417	-	-
183,104	-	-	-	-	-	-
12,290	-	-	-	1,432	-	-
362,711	15,913	-	-	-	2,129	13,578
-	-	-	14,555	-	-	-
-	-	-	-	(18,618)	-	-
375,001	15,913	-	14,555	(17,186)	2,129	13,578
<u>\$ 562,920</u>	<u>\$ 15,913</u>	<u>\$ -</u>	<u>\$ 14,555</u>	<u>\$ 12,231</u>	<u>\$ 2,129</u>	<u>\$ 13,578</u>

continued...

# KALKASKA COUNTY, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2015

	Special Revenue Funds	Capital Project Funds		
	Revenue Sharing Reserve	County Building	County Library Building	Total
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 128,514	\$ 477,769	\$ 2,381,751
Receivables:				
Taxes	-	-	-	354,566
Due from other governments	-	-	-	242,729
Prepays	-	-	-	28,425
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 128,514</u>	<u>\$ 477,769</u>	<u>\$ 3,007,471</u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 6,543	\$ 85,106
Accrued liabilities	-	-	-	13,328
Due to other funds	-	-	-	25,000
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>6,543</u>	<u>123,434</u>
<b>Deferred inflows of resources</b>				
Taxes levied for a subsequent period	-	-	-	365,415
<b>Fund balances</b>				
Nonspendable	-	-	-	28,425
Restricted	-	-	-	1,648,346
Committed	-	128,514	471,226	860,469
Unassigned (deficit)	-	-	-	(18,618)
<b>Total fund balances</b>	<u>-</u>	<u>128,514</u>	<u>471,226</u>	<u>2,518,622</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ -</u>	<u>\$ 128,514</u>	<u>\$ 477,769</u>	<u>\$ 3,007,471</u>

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# KALKASKA COUNTY, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended December 31, 2015

	Special Revenue Funds				
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Reserve Officers	Friend of the Court
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental:					
Federal	960	-	-	-	207,438
State	-	-	-	-	-
Local	-	-	-	-	9,690
Charges for services	-	732	10,920	-	27,883
Fines and forfeitures	-	-	-	-	-
Interest	2	3	4	1	24
Rents	-	22,817	22,475	-	-
Donations	-	-	-	-	-
Other	-	-	23	4,000	-
<b>Total revenues</b>	<u>962</u>	<u>23,552</u>	<u>33,422</u>	<u>4,001</u>	<u>245,035</u>
<b>Expenditures</b>					
Current:					
Judicial	-	-	-	-	244,961
Public safety	1,980	-	-	106	-
Health and welfare	-	-	-	-	-
Recreation and culture	-	20,803	30,555	-	-
<b>Total expenditures</b>	<u>1,980</u>	<u>20,803</u>	<u>30,555</u>	<u>106</u>	<u>244,961</u>
Revenues over (under) expenditures	<u>(1,018)</u>	<u>2,749</u>	<u>2,867</u>	<u>3,895</u>	<u>74</u>
<b>Other financing sources (uses)</b>					
Transfers in	1,500	-	-	3,424	-
Transfers out	-	-	-	-	(43,142)
<b>Total other financing sources (uses)</b>	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>3,424</u>	<u>(43,142)</u>
<b>Net change in fund balances</b>	<u>482</u>	<u>2,749</u>	<u>2,867</u>	<u>7,319</u>	<u>(43,068)</u>
Fund balances, beginning of year	<u>12,718</u>	<u>20,066</u>	<u>19,825</u>	<u>-</u>	<u>97,612</u>
<b>Fund balances, end of year</b>	<u>\$ 13,200</u>	<u>\$ 22,815</u>	<u>\$ 22,692</u>	<u>\$ 7,319</u>	<u>\$ 54,544</u>

Special Revenue Funds							
Animal Control Donation	Extension Strong Family Safe Child	Courthouse Preservation	Sheriff Department Equipment Donation	Building Inspection	911 Central Dispatch	ROD Equipment/Technology	Recycling
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87,370
-	-	-	-	270,793	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	145,924	-	3,000
-	-	-	-	-	-	-	-
-	-	-	-	-	491,007	-	344,393
-	-	44,417	-	-	-	-	-
13	-	29	1	33	449	-	34
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,435	-	-	-	-	-	32,396	-
6,448	-	44,446	1	270,826	637,380	32,396	434,797
-	-	54,158	-	-	-	-	-
1,491	67	-	-	197,220	446,953	21,053	-
-	-	-	-	-	-	-	447,805
-	-	-	-	-	-	-	-
1,491	67	54,158	-	197,220	446,953	21,053	447,805
4,957	(67)	(9,712)	1	73,606	190,427	11,343	(13,008)
-	-	-	9,579	-	-	-	-
-	-	-	-	-	(78,634)	-	-
-	-	-	9,579	-	(78,634)	-	-
4,957	(67)	(9,712)	9,580	73,606	111,793	11,343	(13,008)
81,708	2,303	200,799	-	33,236	742,316	51,332	78,102
\$ 86,665	\$ 2,236	\$ 191,087	\$ 9,580	\$ 106,842	\$ 854,109	\$ 62,675	\$ 65,094

continued...



# KALKASKA COUNTY, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended December 31, 2015

	Special Revenue Funds				
	Corrections Officers Training	Community Corrections Plan	Animal Control	Law Library	Concealed Pistol Licensing
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ 99,745	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental:					
Federal	-	-	-	-	-
State	-	-	-	-	-
Local	-	-	-	2,500	-
Charges for services	4,579	-	6,378	-	5,252
Fines and forfeitures	-	-	-	-	-
Interest	1	-	14	-	-
Rents	-	-	-	-	-
Donations	-	-	-	-	-
Other	-	-	-	-	-
<b>Total revenues</b>	<b>4,580</b>	<b>-</b>	<b>106,137</b>	<b>2,500</b>	<b>5,252</b>
<b>Expenditures</b>					
Current:					
Judicial	-	-	-	7,865	-
Public safety	1,765	-	109,857	-	1,898
Health and welfare	-	-	-	-	-
Recreation and culture	-	-	-	-	-
<b>Total expenditures</b>	<b>1,765</b>	<b>-</b>	<b>109,857</b>	<b>7,865</b>	<b>1,898</b>
Revenues over (under) expenditures	2,815	-	(3,720)	(5,365)	3,354
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	5,500	-
Transfers out	-	(40,388)	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(40,388)</b>	<b>-</b>	<b>5,500</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>2,815</b>	<b>(40,388)</b>	<b>(3,720)</b>	<b>135</b>	<b>3,354</b>
Fund balances, beginning of year	1,495	40,388	11,479	476	-
<b>Fund balances, end of year</b>	<b>\$ 4,310</b>	<b>\$ -</b>	<b>\$ 7,759</b>	<b>\$ 611</b>	<b>\$ 3,354</b>

Special Revenue Funds						
County Library	Inmate Programs & Services	Portable Breathalyzer Testing	TNT Drug Awareness	Child Care	Veterans Trust	Marine Clearwater Township
\$ 185,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
13,776	-	-	-	42,179	-	-
-	-	-	-	13,000	1,676	5,000
7,867	7,378	-	-	-	-	-
137,052	-	-	-	-	-	-
1,683	2	-	2	11	-	2
-	-	-	-	-	-	-
-	-	-	-	-	-	-
333	-	-	-	-	-	-
346,598	7,380	-	2	55,190	1,676	5,002
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,346	-	258	177,850	3,161	424
287,954	-	-	-	-	-	-
287,954	1,346	-	258	177,850	3,161	424
58,644	6,034	-	(256)	(122,660)	(1,485)	4,578
-	-	-	14,811	-	478	-
(23,500)	-	(16,337)	-	-	-	(15,000)
(23,500)	-	(16,337)	14,811	-	478	(15,000)
35,144	6,034	(16,337)	14,555	(122,660)	(1,007)	(10,422)
339,857	9,879	16,337	-	105,474	3,136	24,000
\$ 375,001	\$ 15,913	\$ -	\$ 14,555	\$ (17,186)	\$ 2,129	\$ 13,578

continued...

# KALKASKA COUNTY, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended December 31, 2015

	Special Revenue Funds	Capital Project Funds		
	Revenue Sharing Reserve	County Building	County Library Building	Total
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ -	\$ 373,002
Licenses and permits	-	-	-	270,793
Intergovernmental:				
Federal	-	-	-	208,398
State	-	-	-	204,879
Local	-	-	-	31,866
Charges for services	-	-	-	906,389
Fines and forfeitures	-	-	-	181,469
Interest	66	18	4,093	6,485
Rents	-	-	-	45,292
Donations	-	-	3,344	3,344
Other	-	42,003	-	85,190
<b>Total revenues</b>	<b>66</b>	<b>42,021</b>	<b>7,437</b>	<b>2,317,107</b>
<b>Expenditures</b>				
Current:				
Judicial	-	-	-	306,984
Public safety	-	-	-	782,390
Health and welfare	-	-	-	630,844
Recreation and culture	-	-	191,390	530,702
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>191,390</b>	<b>2,250,920</b>
Revenues over (under) expenditures	66	42,021	(183,953)	66,187
<b>Other financing sources (uses)</b>				
Transfers in	-	-	123,951	159,243
Transfers out	(138,335)	-	(100,451)	(455,787)
<b>Total other financing sources (uses)</b>	<b>(138,335)</b>	<b>-</b>	<b>23,500</b>	<b>(296,544)</b>
<b>Net change in fund balances</b>	<b>(138,269)</b>	<b>42,021</b>	<b>(160,453)</b>	<b>(230,357)</b>
Fund balances, beginning of year	138,269	86,493	631,679	2,748,979
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ 128,514</b>	<b>\$ 471,226</b>	<b>\$ 2,518,622</b>

concluded

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## KALKASKA COUNTY, MICHIGAN

### Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2015

	Trust & Agency	NPI Wireless Zoning	Sheriff's Commissary	Sheriff Forfeiture	Cemetery Trust
<b>Assets</b>					
Cash and cash equivalents	\$ 311,970	\$ 3,111	\$ 28,998	\$ 13,199	\$ 31,074
<b>Liabilities</b>					
Due to other governments	\$ 45,883	\$ -	\$ -	\$ -	\$ -
Undistributed collections	225,256	3,111	28,998	13,199	31,074
Other liabilities	40,831	-	-	-	-
<b>Total liabilities</b>	<u>\$ 311,970</u>	<u>\$ 3,111</u>	<u>\$ 28,998</u>	<u>\$ 13,199</u>	<u>\$ 31,074</u>



Traffic Safety Committee	Library Penal Fine	Animal Control Adoption	Total
\$ 1,374	\$ 2,307	\$ 8,250	\$ 400,283
\$ -	\$ -	\$ -	\$ 45,883
1,374	2,307	8,250	313,569
-	-	-	40,831
\$ 1,374	\$ 2,307	\$ 8,250	\$ 400,283

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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, 2016

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, 2015, 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, 2016. 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2015-001 and -003 to be significant deficiencies.

### Compliance and Other Matters

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

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

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

### Purpose of this Report

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

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

## KALKASKA COUNTY, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2015

#### 2015-001 - Significant Audit Adjustments (Repeated from Prior Year)

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

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

**Condition.** During our audit, we identified and proposed certain significant adjustments (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. These adjustments included entries to delinquent property tax receivables (primarily related to Michigan Tax Tribunal and Board of Review adjustments), loans receivable, and liability balances in the agency funds.

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

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

**Recommendation.** Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments. Going forward, we recommend that management carefully review its tax, loan, and agency accounts and make any necessary adjustments prior to the commencement of the audit process.

**View of Responsible Officials.** Management is contracting with an outside party to assist with year-end procedures and identifying inappropriate balances to reduce the number of necessary audit adjustments. The County expects some adjustments each year to be discovered during the audit process and therefore expects this comment to be repeated each year.

## KALKASKA COUNTY, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2015

#### 2015-002 -Timely/Accurate Reconciliations and Segregation of Duties (Repeated from Prior Year)

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

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

**Condition.** Several balance sheet account reconciliations and other transaction supporting documents were either not completed in a timely manner, ultimately incorrect and/or not subject to the independent review of a responsible member of management: The following specific items were noted:

- Bank reconciliations were not independently reviewed during certain months of the year. Management has indicated these reconciliations are now subject to documented independent review.
- Journal entries were not reviewed and approved by a person independent of preparation.
- Several agency fund accounts have not been adjusted or reconciled to underlying detail in several years.
- Several account reconciliations and reports that were prepared by the contracted accountant did not bear evidence of having been subject to an independent review by a responsible member of management.

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

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

**Recommendation.** While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible. In addition, as journal entries, which are an essential part of any accounting system, represent an opportunity to enter information into the County's records in a way that bypasses normal internal controls, we recommend that the County develop a system to ensure that all journal entries and similar adjustments made to the County's accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

**View of Responsible Officials.** The issues were addressed prior to the end of the fiscal year by management and are expected to be resolved. New accounting software was installed during the year and procedures have been put in place to ensure timely bank reconciliations, approval of journal entries, and review of delinquent accounts.

## KALKASKA COUNTY, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2015

#### 2015-003 - Timely and Accurate Preparation and Submission of OPEB Data

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

**Criteria.** In connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the County is required to obtain an actuarial valuation for its other postemployment benefit (OPEB) plans every three years. The County is responsible for accurate and timely compilation of data necessary for actuarial professionals to process and complete reporting necessary for the proper reporting of OPEB information in the annual financial statements.

**Condition.** Employee census data was not compiled in a timely manner, which led to significant delays in submitting this information to the actuary, thus delaying the issuance of the actuary's December 31, 2015 report. Ultimately, the December 31, 2015 financial statements were prepared utilizing a rollforward of the December 31, 2012 valuation, which is not consistent with generally accepted accounting principles. While we understand that there have not been significant changes in plan terms or plan membership since the most recent actuarial valuation, the valuation should be completed in connection with the requirements of GASB Statement No. 45.

**Cause.** This condition was caused by employee turnover and which resulted in delays of compiling accurate census data.

**Effect.** As a result of this condition, the County experienced an increased risk that misstatements in the accounting records, whether caused by error or fraud, would not be detected and corrected on a timely basis.

**Recommendation.** We recommend that the County assess responsibilities for critical financial information to insure that required tasks are completed accurately and in a timely manner.

**View of Responsible Officials.** The data has been sent to the actuary and the report is expected to be received in the near future. This valuation is only completed every three years but will be addressed shortly into the 2019 fiscal year.

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

June 28, 2016

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, 2015, and have issued our report thereon dated June 28, 2016. We did not audit the financial statements of the Kalkaska County Road Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate 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 February 26, 2016, 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, 2016. 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 June 6, 2016.

### 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 18 to the financial statements, the County changed accounting policies related to accounting for pension plans by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*. The cumulative effect of the accounting change as of the beginning of the year is reported in the Government-wide Statement of Activities and Proprietary Fund Statement of Revenues, Expenses and Changes in Fund 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**

Other than the failure to provide an updated valuation in connection with the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as described in more detail within the schedule of adjustments passed included with management's written representations in Attachment C to this letter, 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. The misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Responses issued in connection with our report on internal control over financial reporting.

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

### **Disagreements with Management**

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

### **Representations Requested from Management**

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

### **Management's Consultations with Other Accountants**

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

### **Other Significant Matters, Findings, or Issues**

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

**Other Information in Documents Containing Audited Financial Statements**

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

**Upcoming Changes in Accounting Standards**

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

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

Very truly yours,

*Lehmann Lobson LLC*

# KALKASKA COUNTY, MICHIGAN

## Attachment A - Comments and Recommendations

For the December 31, 2015 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, 2016, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated June 28, 2016, on the financial statements of Kalkaska County, Michigan.

### *Accounting for Jail Commissary Funds and Discretionary Funds (repeat comment)*

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

### *Budgetary Control (repeat comment)*

It was not clear from the formally adopted budget document whether the Board intended to approve a line-item budget or a budget at the activity level as recommended by the State of Michigan Uniform Budgeting Manual. 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 the Board be more explicit in the budget documentation to approve a budget at the activity level so as to not hold itself accountable for individual line-item variances.

In addition, the County Board of Commissioners did not approve an original budget for its Housing fund, as required by the State of Michigan Uniform Budgeting Manual for all special revenue funds. We recommend that management and the Board implement procedures to ensure that all required funds are budgeted.

### *Internal Controls over Imprest Cash*

We selected one imprest cash account to conduct a count of imprest cash. While the amount of cash recorded in the general ledger totaled approximately \$4,000 for the department selected for testing, there was no actual imprest cash on hand. We recommend that the County establish a procedure for periodically reconciling imprest/petty cash accounts to the amount recorded on the County's general ledger.

### *Capital Asset Records*

The County has defined capital assets as those assets having a useful life in excess of two years and a cost in excess of \$10,000. However, the County's capital asset records currently include several items with an original cost of less than the capitalization threshold. We recommend that the County consider disposing of those items that do not meet the stated capitalization criteria, or consider revising its current policy to better reflect the actual practice in recording capital assets.

## KALKASKA COUNTY, MICHIGAN

### Attachment A - Comments and Recommendations

For the December 31, 2015 Audit

#### *Employment Policies for Non-Union Employees*

While based on our discussions with management, we understand that a policy is in the process of being developed, the County does not currently have an employment policy in place for non-union employees. In regard to sick and vacation benefits, the County has historically followed the informal practice of treating non-union employees similarly to the union employees in similar functions. In addition, it was discovered that the Library was not able to provide adequate supporting documentation for a salary increase. Policies should be in place to define who can authorize such pay changes and what documentation is necessary to be maintained in the clerk's office.

■ ■ ■ ■ ■

# KALKASKA COUNTY, MICHIGAN

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

For the December 31, 2015 Audit

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

### **GASB 72 ■ Fair Value Measurement and Application**

*Effective 06/15/2016 (your FY 2016)*

This standard defines "fair value" as the price that would be received to sell an asset in an orderly transaction between market participants (an "exit price"). Fair value measurement is currently applied principally to investments, which GASB 72 does not change. However, it does introduce specific methods for measuring fair value when a market price is not readily available, and establishes a 3-level hierarchy of fair value that is disclosed in the footnotes, based on the presence or absence of observable market inputs.

### **GASB 73 ■ Pensions and Related Assets Not Within the Scope of GASB 68**

*Effective 06/15/2016 (your FY 2016)*

This standard addresses accounting and financial reporting for pensions that were not covered by GASB Statement No. 68, because the plan assets are not held in trust. Essentially, it applies the same treatment as GASB 68, but reflects the total pension liability and plan assets separately, rather than a net pension liability. We do not expect this standard to have any significant effect on the County.

### **GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans**

*Effective 06/15/2017 (your FY 2017)*

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans.

### **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 76 ■ The Hierarchy of GAAP for State and Local Governments**

*Effective 06/15/2016 (your FY 2016)*

This standard clarifies the source of "generally accepted accounting principles" (GAAP) for governments. Authoritative sources of GAAP now include (1) GASB pronouncements, (2) GASB implementation guides, and (3) AICPA literature specifically cleared by the GASB. This standard does not change existing GAAP.

# KALKASKA COUNTY, MICHIGAN

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

For the December 31, 2015 Audit

### **GASB 77 ■ Tax Abatement Disclosures**

*Effective 12/15/2016 (your FY 2016)*

This standard requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens. Required disclosures include a brief description of the arrangement, the gross dollar amount of taxes abated in the current period, and any additional commitments made by the government as part of the agreement.

### **GASB 78 ■ Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**

*Effective 12/15/2016 (your FY 2016)*

This standard is an amendment to GASB 68, and provides guidance to governments that participate in non-governmental cost-sharing pension plans. We do not expect this standard to have any significant effect on the County.

### **GASB 79 ■ Certain External Investment Pools and Pool Participants**

*Effective 06/15/2016 (your FY 2016)*

This standard essentially extends the guidance previously available to governments investing in 2a7-like external investment pools to carry investments at amortized cost, as an approximation of fair value. The SEC amended Rule 2a7 in 2014, so the GASB replicated its prior provisions in this statement. We do not expect this standard to have any significant effect on the County.

### **GASB 80 ■ Blending Requirements for Certain Component Units**

*Effective 06/15/2017 (your FY 2017)*

This standard is an amendment to GASB 14, *The Financial Reporting Entity*, and requires blending component units incorporated as not-for-profit corporations in which the government is the sole corporate member. We do not expect this standard to have any significant effect on the County.

### **GASB 81 ■ Irrevocable Split-Interest Agreements**

*Effective 12/15/2017 (your FY 2017)*

This standard addresses the accounting for split-interest agreements for which the government serves as the intermediary and/or the beneficiary. It requires governments to record assets, liabilities, and deferred inflows of resources at the inception of the agreement when serving as intermediary, or when the government controls the present service capacity of a beneficial interest. We do not expect this standard to have any significant effect on the County.

### **GASB 82 ■ Pension Issues**

*Effective 06/15/2017 (your FY 2017)*

This standard is an amendment to GASB 67/68 to clarify several issues related to pensions. 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, 2015 Audit

Following are the written representations that we requested from management.





# Kalkaska County Board of Commissioners County of Kalkaska

June 28, 2016

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

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the 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, 2015, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the general fund and each major special revenue fund of the County in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 28, 2016:

## Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 26, 2016, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

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DEBORAH HILL, KALKASKA COUNTY CLERK  
CLERK OF BOARD OF COMMISSIONERS

605 N. BIRCH ST • KALKASKA, MI 49646 • 231.258.3300, OPT 3 • dhill@kalkaskacourt.org



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. Special items and extraordinary items have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
21. All required supplementary information is measured and presented within the prescribed guidelines.
22. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
23. 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

24. 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.
25. All transactions have been recorded in the accounting records and are reflected in the financial statements.
26. 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.
27. 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.
28. 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.
29. 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.
30. 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.
31. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
32. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
33. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
34. 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.
35. 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.
36. 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.
37. 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.

38. 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**

39. With respect to the supplementary information accompanying the financial statements:
- We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - 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.
  - The methods of measurement or presentation have not changed from those used in the prior period.
  - 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**

40. With respect to the required supplementary information accompanying the financial statements:
- 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.
  - 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.
  - The methods of measurement or presentation have not changed from those used in the prior period.
  - 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.

 6/28/16  
Deborah Hill, County Clerk

 6-28-16  
Valerie Thornburg - County Treasurer



# KALKASKA COUNTY, MICHIGAN

## Schedule of Adjustments Passed (SOAP)

For the December 31, 2015 Audit

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

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
<b>General fund / governmental activities</b>					
Effect of accounts payable balances over accrued	\$ -	\$ 13,320	\$ -	\$ -	\$ 13,320
<b>Nonmajor governmental funds / governmental activities</b>					
Effect of prior year revenue recognized for the Library fund in current year	-	-	(8,447)	8,447	-
<b>Total governmental activities</b>	<u>\$ -</u>	<u>\$ 13,320</u>	<u>\$ (8,447)</u>	<u>\$ 8,447</u>	<u>\$ 13,320</u>
<b>Misstatement as a percentage of total assets &amp; deferred outflows - governmental activities</b>	0.00%	0.11%	-0.07%	0.07%	0.11%

In addition, the County submitted census data related to its net other postemployment benefits valuation approximately six months after year-end to the actuary. As a result, the County did not obtain an updated actuarial valuation for its December 31, 2015 financial statements, which was required under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The impact of not obtaining the appropriate actuarial valuation is not readily determinable; however, we believe the impact would be immaterial to the financial statements.