

Mid-Michigan District Health Department

Financial Statements

September 30, 2016

Table of Contents

Section		Page
1	Independent Auditors' Report	1 – 1
2	Management's Discussion and Analysis	2 – 1
3	Basic Financial Statements	
	Government-wide Financial Statements	
	Statement of Net Position	3 – 1
	Statement of Activities	3 – 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	3 – 3
	Reconciliation of Fund Balances of Governmental Fund to Net Position of Governmental Activities	3 – 4
	Statement of Revenues, Expenditures and Changes in Fund Balances	3 – 5
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	3 – 6
	Notes to the Financial Statements	3 – 7
4	Required Supplementary Information	
	Budgetary Comparison Schedule	
	General Operating Fund	4 – 1
	Municipal Employees Retirement System of Michigan	
	Schedule of Employer Contributions	4 – 2
	Schedule of Changes in Net Pension Liability and Related Ratios	4 – 3
	Schedule of Employers' Net Pension Liability	4 – 4
	Schedule of Other Post-Employment Benefits	4 – 5

Independent Auditors' Report

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mid-Michigan District Health Department, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Department'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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mid-Michigan District Health Department, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, municipal employees' retirement system schedules and other post-employment benefit schedules, as identified 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017 on our consideration of the Mid-Michigan District Health Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mid-Michigan District Health Department's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
March 17, 2017

Mid-Michigan District Health Department

Management's Discussion and Analysis

September 30, 2016

This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended September 30, 2016, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the Department exceeded its liabilities at September 30, 2016, by \$1,380,866 at the government-wide level. Of this amount, \$777,636 (unrestricted net position) may be used to meet the Department's ongoing obligations.
- The Department's total net position decreased \$470,476 as a result of this year's operations.
- As of September 30, 2016, the Department's governmental fund reported an ending fund balance of \$2,540,968 a decrease of \$200,439.
- As of September 30, 2016, the unassigned fund balance was \$15,782.

Overview of the Financial Statements

The Department'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 in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire Department. They present an overall view of the Department's finances for the fiscal year ending September 30, 2016.

The statement of net position presents information on all of the Department's assets and deferred outflows of resources, and liabilities, with the difference between these 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 Department is improving or deteriorating.

The statement of activities presents information showing how the Department's net position changed during fiscal year 2015/2016. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Department's offices are supported by intergovernmental revenues, governmental grants, donations, fees and charges for services, interest, and local contributions. The governmental activities of the Department are all considered health and sanitation programs.

The government-wide financial statements include only financial information related to the Department.

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 Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department operates with one fund, which is considered a governmental fund.

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

**Mid-Michigan District Health Department
Management's Discussion and Analysis
September 30, 2016**

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 the Department'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 Department's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department adopts an annual appropriated budget for its General Operating Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic financial statements can be found starting on page 3-1 of this report.

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. The notes to the financial statements can be found starting on page 3-7 of this report.

Required Supplementary Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 4-1, and information related to the defined pension plan and retired employees' health care plans starting on page 4-2.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets and deferred outflows of resources exceeded liabilities by \$1,380,866. A comparative analysis of data with the previous fiscal year is as follows:

	<u>2016</u>	<u>Restated 2015</u>
Current and other assets	\$3,535,999	\$3,821,045
Capital assets	508,021	285,705
Total assets	<u>4,044,020</u>	<u>4,106,750</u>
Deferred outflow of resources	<u>1,308,544</u>	<u>294,602</u>
Current liabilities	548,858	955,111
Noncurrent liabilities	3,422,840	1,594,899
Total liabilities	<u>3,971,698</u>	<u>2,550,010</u>
Net position		
Investment in capital assets	508,021	285,705
Restricted	95,209	102,589
Unrestricted	777,636	1,463,048
Total net position	<u>\$1,380,866</u>	<u>\$1,851,342</u>

**Mid-Michigan District Health Department
Management's Discussion and Analysis
September 30, 2016**

Ending net position as of September 30, 2015 was restated from \$1,111,204 to \$1,851,342. Footnote 13 discusses the details of the restatement.

Unrestricted net position (the part of net position that can be used to finance day-to-day operations) decreased by \$47,863. Net position invested in capital assets increased by \$222,316. The current level of unrestricted net position for the governmental activities stands at \$777,636, or approximately 12 percent of annual expenses. This is within the Department's desired range and represents only a small decrease from the prior year.

The following table shows the changes of net position for the years ended September 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Program revenues		
Charges for services	\$1,600,176	\$2,288,421
Operating grants and contributions	3,114,538	3,125,091
General revenue		
County appropriations	1,364,780	1,389,207
Interest	3,773	1,314
Total revenues	<u>6,083,267</u>	<u>6,804,033</u>
Program expenses	<u>6,553,743</u>	<u>6,161,020</u>
Change in net position	<u><u>\$(470,476)</u></u>	<u><u>\$643,013</u></u>

Total expenses increased about six percent over the previous fiscal year, mainly due to the increase in the net pension liability. Revenues were down from the previous year, which is mainly attributed to the multiple years of Medicaid Full Cost Reimbursement funding that was received in 2015.

Financial Analysis of the Department's Fund

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

Governmental Fund: The focus of the Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department'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 Department's governmental fund reported a total ending fund balance of \$2,540,968 a decrease of \$200,439 in comparison with the prior year. Certain constraints have been placed on fund balance at September 30, 2016. Of the total fund balance, \$2,270,627, or 89% of the total, has been committed for the general operating fund. Committed fund balances are amounts that are constrained for certain purposes that have been approved by the Board of Public Health. Commitments of fund balance can be established, modified, or rescinded by a resolution from the Board of Public Health. The restricted and non-spendable fund balances total \$254,559 and the unassigned fund balance is \$15,782. As a measure of liquidity, it may be useful to compare committed and unassigned fund balance to the total fund expenditure. Committed and unassigned fund balance represents 36% of the total fund expenditures.

**Mid-Michigan District Health Department
Management's Discussion and Analysis
September 30, 2016**

Governmental Fund Budgetary Highlights

Over the course of the year, the Department's Board of Public Health may amend the budget to take into account events that occur during the year. For the year ended September 30, 2016, budget amendments primarily increased and decreased licenses and permits, intergovernmental, and charges for services revenue and certain expenditure line items, especially those related to the approved capital expense projects by amounts necessary to maintain consistency with actual activities for the fiscal year. In total, the Department's amended expenditure budget changed from \$6,199,516 to \$6,594,986, which represented only a relatively small increase in the overall agency budget.

Capital Asset and Debt Administration

Capital Assets: The Department's investment in capital assets as of September 30, 2016, amounts to \$508,021 (net of accumulated depreciation). More information is reported in footnote 5.

Long-term Obligations: The Department has long-term obligations related to compensated absences (e.g., unused vacation and personal leave). The total obligation for compensated absences and related payroll taxes at September 30, 2016, was \$285,444.

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending September 30, 2017, close monitoring of the Federal and State budget actions will continue to be important related to lack of economic increases and/or further possible cuts in funding provided through State grant agreements including those that originate at the federal level and other State funding mechanisms such as Essential Local Public Health Services, Medicaid Cost, and Rated Based Reimbursement funding supplements. The Department continues to closely monitor Environmental Health permit applications activity and Community Health and Education charge for services to determine if there are any significant changes in activity. The Department is focusing efforts on increasing reimbursement by billing commercial insurances for services provided in Community Health and Education Division. The Department's operating budget could be significantly impacted by changes in State funding, permit activity and billing reimbursement, therefore, will be monitored closely.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Melissa Bowerman
Administration Services Division Director
Mid-Michigan District Health Department
615 N. State St., Suite 2
Stanton, MI 48888
Office: 989-831-5237
Fax: 989-831-5522
E-mail: mbowerman@mmdhd.org**

Mid-Michigan District Health Department
Statement of Net Position
September 30, 2016

	Governmental Activities
Assets	
Cash	\$ 78,678
Cash on deposit with fiscal agent	2,583,631
Receivables	
Accounts	155,734
Contracts	88,760
Due from other units of government	
Federal and state	192,852
Local	4,581
Inventories	70,048
Prepaid items	89,302
Contracts receivable, net of current portion	272,413
Capital assets not being depreciated	105,333
Capital assets, net of accumulated depreciation	402,688
Total assets	4,044,020
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	1,308,544
Total assets and deferred outflows of resources	5,352,564
Liabilities	
Accounts payable	162,789
Accrued wages	127,483
Accrued liabilities	145,199
Due to others	43,339
Unearned revenue	70,048
Noncurrent liabilities	
Compensated absences due within one year	285,444
Net other post-employment benefit obligation	329,578
Net pension liability	2,807,818
Total liabilities	3,971,698
Net Position	
Net investment in capital assets	508,021
Restricted for	
Dental clinic	95,209
Unrestricted	777,636
Total net position	\$ 1,380,866

Mid-Michigan District Health Department
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities				
Health and welfare				
Community health and education	\$ 3,784,007	\$ 937,105	\$ 2,417,320	\$ (429,582)
Environmental health	1,187,952	629,908	585,963	27,919
Administration	1,581,784	33,162	111,255	(1,437,367)
Total governmental activities	<u>\$ 6,553,743</u>	<u>\$ 1,600,176</u>	<u>\$ 3,114,538</u>	<u>(1,839,029)</u>
General revenues				
Interest				3,773
County appropriations				<u>1,364,780</u>
Total general revenues				<u>1,368,553</u>
Change in net position				(470,476)
Net position - beginning of year (restated)				<u>1,851,342</u>
Net position - end of year				<u>\$ 1,380,866</u>

Mid-Michigan District Health Department
Governmental Fund
Balance Sheet
September 30, 2016

	<u>General Operating Fund</u>
Assets	
Cash	\$ 78,678
Cash on deposit with fiscal agent	2,583,631
Receivables	
Accounts	155,734
Contracts	361,173
Due from other units of government	
Federal and state	192,852
Local	4,581
Inventories	70,048
Prepaid items	<u>89,302</u>
Total assets	<u><u>\$ 3,535,999</u></u>
Liabilities	
Accounts payable	\$ 162,789
Accrued wages	127,483
Accrued liabilities	145,199
Due to others	43,339
Unearned revenue	<u>70,048</u>
Total liabilities	<u>548,858</u>
Deferred Inflows of Resources	
Unavailable revenue - charges for services	85,000
Unavailable revenue - lease revenue	<u>361,173</u>
Total deferred inflows of resources	<u>446,173</u>
Fund Balances	
Non-spendable	
Inventories	70,048
Prepaid items	89,302
Restricted for	
Dental clinic	95,209
Committed	2,270,627
Unassigned	<u>15,782</u>
Total fund balances	<u>2,540,968</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 3,535,999</u></u>

**Mid-Michigan District Health Department
Governmental Fund
Reconciliation of Fund Balances of Governmental Fund
to Net Position of Governmental Activities
September 30, 2016**

Total fund balances for governmental fund	\$ 2,540,968
Total net position for governmental activities in the statement of net position is different because:	
Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	105,333
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	402,688
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	446,173
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences	(285,444)
Net other post employment obligation	(329,578)
Deferred outflows of resources resulting from net pension liability	1,308,544
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Net pension liability	<u>(2,807,818)</u>
Net position of governmental activities	<u><u>\$ 1,380,866</u></u>

Mid-Michigan District Health Department
Governmental Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2016

	<u>General Operating Fund</u>
Revenues	
Licenses and permits	\$ 624,909
Intergovernmental	
Federal and state	2,682,063
Local	
Other	480,646
County	1,364,780
Charges for services	962,567
Interest income	3,773
Other revenue	<u>40,589</u>
Total revenues	<u>6,159,327</u>
Expenditures	
Current	
Health and welfare	
Salaries and wages	3,386,961
Fringe benefits	1,259,786
Supplies and materials	379,927
Contractual services	228,382
Communications	62,115
Travel and training	183,239
Insurance	33,841
Building and equipment lease and rentals	437,202
Printing and advertising	9,916
Postage	20,194
Other	43,792
Total health and welfare	<u>6,045,355</u>
Capital outlay	<u>314,411</u>
Total expenditures	<u>6,359,766</u>
Net change in fund balance	(200,439)
Fund balance - beginning of year (restated)	<u>2,741,407</u>
Fund balance - end of year	<u><u>\$2,540,968</u></u>

Mid-Michigan District Health Department
Governmental Fund
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Fund to the Statement of Activities
For the Year Ended September 30, 2016

Net change in fund balances - total governmental fund \$ (200,439)

Total change in net position reported for governmental activities in the statement of activities is 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.

Depreciation expense	(62,686)
Capital outlay	291,357
Sale of capital assets (net book value)	(6,355)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Charges for services	12,700
Financing lease	(88,760)

Expenses are recorded when incurred in the statement of activities.

Compensated absences	(4,475)
Net other post employment obligation	(50,243)

The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.

Net change in net pension liability	(1,375,517)
Net change in the deferred outflows of resources related to the net pension liability	<u>1,013,942</u>

Change in net position of governmental activities **\$ (470,476)**

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies

Reporting entity

The Mid-Michigan District Health Department (the Department) is a joint venture between Montcalm, Gratiot and Clinton Counties, and was established to provide public health services.

The Board of Public Health is represented by and provides services to Montcalm, Gratiot and Clinton Counties. Each County provides annual appropriations. The current funding formula approved by the Board of Public Health requires Montcalm, Gratiot and Clinton Counties to provide approximately 38, 27, and 35 percent, respectively, of the total County appropriations. The percentages are calculated annually based on the formula in the intergovernmental agreement. In addition, the treasury function for the Department rests with the Montcalm County Treasurer.

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.

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. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General appropriations and other items not properly included among program revenues are reported instead as *general revenues*. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all county appropriations.

Separate financial statements are provided for governmental funds. The Department only has one fund reported in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues susceptible to accrual include state and federal grants and interest income. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues related to grants are considered available if collected within 180 days due to the State of Michigan's slow payment. 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.

The government reports the following major governmental fund:

The General Operating Fund is used to account for all financial resources of the Department, which includes expenditures primarily for specified health related purposes.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Assets, liabilities, and net position or equity

Cash – Cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Cash on deposit with fiscal agent – Cash on deposit with the Montcalm County Treasurer.

Receivables – Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

The Department has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payers are treated as a reduction to revenues.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Donated vaccine inventory consists of vaccines received from the State of Michigan and is stated at fair value as of the date of donation. Vaccine inventory received from the State of Michigan that is on hand at year-end has been reported as unearned revenue. They are reported as expenditures at the time individual inventory items are used.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the Department follows the consumption method, and they therefore are capitalized as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets are reported in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Department values these capital assets at the estimated fair value of the item at the date of its donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 - 20 years
Leasehold improvements	10 years

Deferred outflows of resources – The Department reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan. The Department also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability in the following year.

Due to others – The Department serves as the fiduciary on monies that are to be used for specific purposes. For example, other agencies have provided funding for a dental center expansion. Until all of the funds are raised and the project begins, these funds could possibly be paid back to the other agencies.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Unearned revenue – The governmental fund reports unearned revenue in connection with resources that have been received but not yet earned. The Department records unearned revenue in connection with the inventory previously discussed.

Compensated absences – It is the Department’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Leave time is accrued when incurred in the government-wide financial 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.

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 Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS’ fiduciary net position have been determined on the same basis as they are reported to MERS. 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.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the Department that is applicable to a future reporting period. For the governmental fund this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

The Department reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan.

Fund Equity – In the fund financial statements fund balance is reported in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the Department’s highest level of decision-making, its Board of Public Health. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Public Health.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Public Health, the budget or finance committee, or delegated official. The Board of Public Health has not anyone the authority to assign funds.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

The following amounts have been committed for the general operating fund:

Behavioral Risk Factor Survey (BRFS)	\$ 11,522
Equipment	679,753
Facility development	124,580
Family planning medicaid full cost reimbursement	81,000
Health insurance	160,000
Potential claims	12,734
Retirement	608,830
Self-insurance bonds	13,950
Training	35,000
Unemployment	55,000
Vacation and sick leave	488,258
	<u>\$ 2,270,627</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Department's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Department's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 72 *Fair Value Measurements and Applications*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending September 30, 2016.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*. The first objective of this Statement is provide the readers of the financial statements information about the effects of the pension-related transactions on the financial statements of state and local government employers. It will assist in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period in addition to providing information about the government's pension obligation. The second objective of this Statement is to improve the information about financial support provided by certain nonemployer entities for pensions that are provided to the employees of other entities that are not within the scope of Statement No. 68. These requirements are effective for the fiscal year ending June 30, 2017. The third objective is to improve the quality of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

that are not within the scope of Statement 68 and to clarify the application of certain provisions of Statement No. 67 and 68. These requirements are effective for the fiscal year ending September 30, 2016.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement 76 is effective for the year ending September 30, 2016.

Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. Also, it establishes additional disclosure requirements for qualifying external investment pools that make that election and for governments that participate in such external investment pools. Statement 79 is effective for the year ending September 30, 2016.

Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 is effective for the year ending September 30, 2016.

Upcoming Accounting and Reporting Changes

In addition, the Governmental Accounting Standards Board has released the following Statements.

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefit plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending September 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending September 30, 2018.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending September 30, 2017.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending September 30, 2017.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending September 30, 2018.

The Department is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Budget Accountability

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Operating Fund. All annual appropriations lapse at fiscal year end. Any revisions that alter the total expenditures of an activity must be approved by the Board of Public Health.

Note 3 - Cash

At year end deposits were reported in the financial statements in the following categories:

	Cash and Cash Equivalents	Cash on Deposit with Fiscal Agent	Total
Governmental activities	\$ 78,678	\$ 2,583,631	\$ 2,662,309

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts)	\$ 77,688
Cash on deposit with fiscal agent	2,583,631
Petty cash and cash on hand	990
	\$ 2,662,309

Interest rate risk – The Department does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Credit risk – State statutes and the Department’s investment policy authorize the Department to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Department is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the Department’s deposits may not be returned to it. The Department does not have a policy for custodial credit risk. As of year end, the bank deposits were not exposed to custodial credit risk. The cash on deposit with Montcalm County is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these funds cannot be determined.

Note 4 - Long-term Contracts Receivable

The Department entered into agreements on June 1, 2009 and February 1, 2011 with Michigan Community Dental Clinics, Inc. (MCDC) to lease office space and equipment and turnover the Department’s dental services to MCDC. In return, MCDC is paying the Department a sum of money (\$561,600 and \$346,957) over a period of 10 years. The amounts attributable to these long-term contracts receivable have been recorded at the fund level as contracts receivable and deferred inflows of resources. The following is a summary of future annual revenue from MCDC for the agreements:

Year Ending September 30,	Equipment Lease	Office Lease	Equipment Lease	Office Lease	Total
2017	\$ 24,000	\$ 29,160	\$ 12,000	\$ 23,600	\$ 88,760
2018	24,000	29,160	12,000	23,600	88,760
2019	24,000	29,160	12,000	23,600	88,760
2020	4,000	4,860	12,000	23,600	44,460
2021	-	-	12,000	23,600	35,600
2022	-	-	5,000	9,833	14,833
	<u>\$ 76,000</u>	<u>\$ 92,340</u>	<u>\$ 65,000</u>	<u>\$ 127,833</u>	<u>\$ 361,173</u>

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Note 5 - Capital Assets

Capital assets activity for the current year is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Construction-in-progress	\$ 40,000	\$ 65,333	\$ -	\$ 105,333
Capital assets being depreciated				
Equipment	837,915	206,293	83,837	960,371
Leasehold improvements	188,765	19,731	-	208,496
Total capital assets being depreciated	<u>1,026,680</u>	<u>226,024</u>	<u>83,837</u>	<u>1,168,867</u>
Less accumulated depreciation for				
Equipment	658,276	42,945	77,482	623,739
Leasehold improvements	122,699	19,741	-	142,440
Total accumulated depreciation	<u>780,975</u>	<u>62,686</u>	<u>77,482</u>	<u>766,179</u>
Net capital assets being depreciated	<u>245,705</u>	<u>163,338</u>	<u>6,355</u>	<u>402,688</u>
Governmental activities capital assets, net	<u>\$ 285,705</u>	<u>\$ 228,671</u>	<u>\$ 6,355</u>	<u>\$ 508,021</u>

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

Governmental activities	
Community health and education	\$ 46,646
Environmental health	1,123
Administration	<u>14,917</u>
Total governmental activities	<u>\$ 62,686</u>

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Note 6 - Leases

Operating Leases

On June 2, 2011, the Department entered into a lease agreement with Clinton County to lease office space located in St. Johns, Michigan. The effective date of the new lease is October 1, 2011, until September 30, 2021. Total costs for this lease were \$20,100 for the year ended September 30, 2016. Michigan Community Dental Clinics, Inc. (MCDC) is a sub-lessee of the office space. MCDC pays the Department monthly, then the Department pays Clinton County. The future minimum lease payments for this lease are as follows:

<u>Year Ending September 30,</u>	
2017	\$ 20,100
2018	20,100
2019	20,100
2020	20,100
2021	<u>20,100</u>
	<u>\$ 100,500</u>

The Department has entered into a twenty-year, noncancelable long-term lease with NHF Sub Montcalm, a nonprofit organization, for the Montcalm branch office space. Rent expense for the year ended September 30, 2016, amounted to \$79,842. The future minimum lease payments for this lease are as follows:

<u>Year Ending September 30,</u>	
2017	\$ 79,675
2018	79,675
2019	<u>13,279</u>
	<u>\$ 172,629</u>

Note 7 - Long-Term Debt

Long-term obligations include compensated absences. Compensated absences are liquidated with funds from the general operating fund. Compensated absences are a liability to the Department which are split between current and noncurrent liabilities within the government-wide financial statements based on an estimate of when they will be due and payable. Payments to employees for compensated absences are recorded as expenditures when they are used and payments are actually made to the employees at the fund level.

Long-term obligation activity is summarized as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	<u>\$ 280,969</u>	<u>\$ 405,987</u>	<u>\$ 401,512</u>	<u>\$ 285,444</u>	<u>\$ 285,444</u>

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Note 8 - Risk Management

The Department is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately. The Authority administers a risk management fund providing the Department with loss protection for general liability, property damage, and losses due to crime. Settled claims relating to the insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Department also carries commercial insurance for the risk of loss due to workers' compensation and healthcare professional liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Note 9 - Employee Retirement and Benefit Systems

Defined benefit pension plan

Plan description – The Department participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer, statewide public employee defined benefit pension plan that covers all employees of the government. The plan was established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

Benefits provided – Benefits provided include plans with multipliers ranging from 2.00% to 2.5%. Vesting periods range from 6 to 10 years. Normal retirement age is 60 with early retirement at 50 with 25 years of service or 55 with 15 years of service. Final average compensation is calculated based on 5 years. Member contributions range from 2.58% to 3.00%.

Employees covered by benefit terms – At the December 31, 2015 valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to, but not yet receiving benefits	38
Active employees	<u>79</u>
	<u><u>164</u></u>

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by 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 range from 6.49% to 15.97% based on annual payroll for open divisions. There were no divisions closed to new hires as of December 31, 2015.

Net pension liability – The employer'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 annual actuarial valuation as of that date.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Actuarial assumptions – The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement include: 1) Inflation 2.5%; 2) Salary increases 3.75% in the long-term; 3) Investment rate of return of 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5%.

Mortality rates used were based on the 2014 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.

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

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 or arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8.0%. 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 plans 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.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Changes in Net Pension Liability

Total Pension Liability

Service cost	\$ 277,353
Interest on the total pension liability	741,267
Experience differences	44,440
Changes in actuarial assumptions	498,434
Other changes	23,165
Benefit payments and refunds	<u>(457,449)</u>
Net change in total pension liability	1,127,210
Total pension liability - beginning	<u>9,355,890</u>
Total pension liability - ending (a)	<u>\$ 10,483,100</u>

Plan Fiduciary Net Position

Employer contributions	\$ 252,936
Employee contributions	92,676
Pension plan net investment loss	(119,126)
Benefit payments and refunds	(457,449)
Pension plan administrative expense	<u>(17,344)</u>
Net change in plan fiduciary net position	(248,307)
Plan fiduciary net position - beginning	<u>7,923,589</u>
Plan fiduciary net position - ending (b)	<u>\$ 7,675,282</u>
Net pension liability (a-b)	<u>\$ 2,807,818</u>
Plan fiduciary net position as a percentage of total pension liability	73.22%
Covered employee payroll	3,271,621
Net pension liability as a percentage of covered employee payroll	85.82%

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 8.0%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (7%) or 1% higher (9%) than the current rate.

	<u>1% decrease</u>	<u>Current discount rate</u>	<u>1% increase</u>
Total pension liability	\$ 11,835,286	\$ 10,483,100	\$ 9,350,741
Fiduciary net position	<u>7,675,282</u>	<u>7,675,282</u>	<u>7,675,282</u>
Net pension liability	<u>\$ 4,160,004</u>	<u>\$ 2,807,818</u>	<u>\$ 1,675,459</u>

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – For the year ended September 30, 2016 the employer recognized pension expense of \$624,237. The employer reported deferred outflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Amount to Amortize
Differences in experience	\$ 35,552	\$ 35,552
Differences in assumptions	398,747	398,747
Excess investment returns	683,357	683,357
Contributions subsequent to the measurement date*	190,888	-
Total	\$ 1,308,544	\$ 1,117,656

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the fiscal year ending 2017.

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

Year ended,	
2017	\$ 286,504
2018	286,504
2019	286,504
2020	258,144
	\$ 1,117,656

Note 10 - Other Post-employment Benefits

Plan description – The Department provides other post-employment benefits (OPEB) to all applicable employees, in accordance with the employment agreements and/or personnel policies, hospitalization and medical coverage on a complimentary basis for non-union employees who retire at the minimum age of 60 and have at least 20 or more years of continuous service with the Department. Dependents are not eligible for any employer paid insurance and if coverage is elected for dependents, it will be 100% employee paid. Employees who do not meet the above stated criteria will not receive employer paid benefits upon retirement. Coverage ends at the earlier of a retiree attainment of age 65 or death.

The plan does not issue a separate stand-alone financial statement.

Funding Policy – The Department’s annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The Department has elected to have an actuary calculate the ARC and related amounts. The Department has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a “pay-as-you-go” basis). Administrative costs of the plan are paid for by the Department.

Funding Progress – For the year ended September 30, 2016, the Department has determined an estimated cost of providing retiree post-employment benefits through an actuarial valuation. The valuation computes an ARC which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed fourteen (14) years.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

The computed contribution and actual funding is summarized as follows:

Annual required contribution	\$	67,230
Interest on net OPEB obligation		10,758
Adjustment to annual required contribution		<u>(23,183)</u>
Annual OPEB cost		54,805
Contribution made		<u>(4,562)</u>
Change in net OPEB obligation		50,243
Net OPEB obligation, beginning of year		<u>279,335</u>
Net OPEB obligation, end of year		<u><u>\$ 329,578</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of the current year are as follows:

Fiscal year ending	Annual OPEB cost	Actual contribution	Percentage of annual OPEB cost contributed	Net OPEB obligation
9/30/2014	\$ 55,594	\$ -	0.00%	\$ 227,155
9/30/2015	52,180	-	0.00%	279,335
9/30/2016	54,805	-	0.00%	329,578

This trend information was obtained from the most recently issued valuation reports.

The funding of the plan as of September 30, 2015, the most recent valuation available, is as follows:

Actuarial accrued liabilities (AAL)	\$	412,176
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)		<u>\$ 412,176</u>
Funded ratio		0.00%
Covered payroll (active plan members)		\$ 914,691
UAAL as a percentage of covered payroll		45.06%

Actuarial Methods and assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the Department are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are made about the future. The actuarial cost method used was the entry age normal (level percent) method. The amortization method was the level percent method and the most recent actuarial valuation period is closed.

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the Department and the benefits are received by the eligible 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 Department and plan members. 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. Projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Department and plan members in the future.

In the actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 4% yearly rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets and a 4% discount rate. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed rate ranges from 8% graded down to 5% over six (6) years for health care related costs. The UAAL is being amortized as a level percent over a period of 14 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

Note 11 - Deferred Compensation Plan

The Department offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to substantially all Department employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans are administered through MetLife Resources, Royal Alliance, and Primary Shareholders Services.

Legislative changes made to 457 plans mandated that no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of September 30, 1999, the Department had implemented changes to be in compliance with these requirements. As a result, the plan assets are not reported in the audited financial statements by the Department because the legislation eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

The Department also offers its employees a tax sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to substantially all Department employees, permits them to make pre-tax contributions into various investment options. The Department has obtained non-profit exemption status under Internal Revenue Code Section 501(c)(3) thus allowing them to create the 403(b) plan. The plan is administered through MetLife Resources.

Note 12 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute

Mid-Michigan District Health Department
Notes to the Financial Statements
September 30, 2016

a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Department expects such amounts, if any, to be immaterial.

Note 13 - Prior Period Adjustment

The Department recorded unearned revenue of \$102,589, related to funding that is part of the dental clinic, as of September 30, 2015 that was in fact earned revenue with restrictions on how the funds could be spent. This amount should have been recorded as restricted fund balance.

The Department recorded a liability for compensated absences as of September 30, 2015 that was not in accordance with the policies that govern this liability. The compensated absences liability was overstated by \$292,316 at September 30, 2015.

The Department recorded \$72,300 of unearned revenue as of September 30, 2015 related to amounts recorded as receivable for Medicaid services provided. This amount should have been recorded as a deferred inflow of resources in the fund statements, and revenue in the government-wide statements.

The Department omitted certain lease contracts from the long-term lease receivable as of September 30, 2015. An additional \$272,933 should have been recorded in the fund statements as a receivable and deferred inflow of resources. This amount should have been recorded as revenue in the government-wide statements.

The effect on fund balance and net position of the above items is as follows:

	Governmental Activities Net Position	General Operating Fund Fund Balance
Beginning of year	\$ 1,111,204	\$ 2,638,818
Prior period adjustments		
Unearned revenue - dental clinic	102,589	102,589
Compensated absences	292,316	-
Unearned revenue - Medicaid	72,300	-
Lease contracts	272,933	-
	740,138	102,589
End of year - restated	\$ 1,851,342	\$ 2,741,407

Mid-Michigan District Health Department
Required Supplementary Information
Budgetary Comparison Schedule
General Operating Fund
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 588,399	\$ 655,300	\$ 624,909	\$ (30,391)
Intergovernmental				
Federal and state	2,772,210	2,813,500	2,682,063	(131,437)
Local				
Other	471,280	470,565	480,646	10,081
County	1,364,546	1,367,476	1,364,780	(2,696)
Charges for services	862,375	989,500	962,567	(26,933)
Interest income	2,000	5,000	3,773	(1,227)
Other revenue	55,200	89,200	40,589	(48,611)
Total revenues	6,116,010	6,390,541	6,159,327	(231,214)
Expenditures				
Health and welfare				
Salaries and wages	3,338,248	3,398,909	3,386,961	(11,948)
Fringe benefits	1,306,018	1,277,352	1,259,786	(17,566)
Supplies and materials	604,700	615,625	379,927	(235,698)
Contractual services	195,000	204,000	228,382	24,382
Communications	69,950	69,000	62,115	(6,885)
Travel and training	169,900	193,000	183,239	(9,761)
Insurance	32,000	35,000	33,841	(1,159)
Building and equipment lease and rentals	328,720	335,400	437,202	101,802
Printing and advertising	10,300	15,700	9,916	(5,784)
Postage	20,000	23,000	20,194	(2,806)
Other	49,180	54,000	43,792	(10,208)
Total health and welfare	6,124,016	6,220,986	6,045,355	(175,631)
Capital outlay	75,500	374,000	314,411	(59,589)
Total expenditures	6,199,516	6,594,986	6,359,766	(235,220)
Net change in fund balance	(83,506)	(204,445)	(200,439)	4,006
Fund balance - beginning of year (restated)	2,741,407	2,741,407	2,741,407	-
Fund balance - end of year	\$ 2,657,901	\$ 2,536,962	\$ 2,540,968	\$ 4,006

**Mid-Michigan District Health Department
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Employer Contributions
September 30, 2016**

Actuarial Valuation Date	Annual Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
12/31/2006	\$ 225,505	\$ 225,505	\$ -	\$ 3,056,636	7.38%
12/31/2007	229,870	229,870	-	2,959,037	7.77%
12/31/2008	226,287	226,287	-	2,853,423	7.93%
12/31/2009	223,631	223,631	-	2,785,928	8.03%
12/31/2010	204,670	204,670	-	2,858,466	7.16%
12/31/2011	213,261	213,261	-	2,735,992	7.79%
12/31/2012	414,440	198,313	216,127	2,904,165	6.83%
12/31/2013	219,406	219,406	-	2,919,078	7.52%
12/31/2014	251,230	251,230	-	3,042,883	8.26%
12/31/2015	252,937	252,937	-	3,271,621	7.73%

Notes: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 21 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 cost
Amortization method	Level percentage, open
Remaining amortization period	23
Asset valuation method	5-year smoothed value of assets
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60
Mortality	RP-2014 Healthy Annuitant Mortality Tables - 50% male and 50% female blend RP-2014 Employee Mortality Tables - 50% male and 50% female blend RP-2014 Juvenile Mortality Tables - 50% male and 50% female blend RP-2014 Disabled Retiree Mortality Tables - 50% male and 50% female blend

Mid-Michigan District Health Department
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Changes in Net Pension Liability and Related Ratios
September 30, 2016

	2016	2015
Total Pension Liability		
Service cost	\$ 277,353	\$ 257,983
Interest on the total pension liability	741,267	720,117
Experience differences	44,440	-
Changes in actuarial assumptions	498,434	-
Other changes	23,165	(1)
Benefit payments and refunds	(457,449)	(443,826)
Net change in total pension liability	1,127,210	534,273
Total pension liability - beginning	9,355,890	8,821,617
Total pension liability - ending (a)	<u>\$ 10,483,100</u>	<u>\$ 9,355,890</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 252,936	\$ 251,231
Employee contributions	92,676	87,771
Pension plan net investment income (loss)	(119,126)	477,547
Benefit payments and refunds	(457,449)	(443,826)
Pension plan administrative expense	(17,344)	(17,561)
Net change in plan fiduciary net position	(248,307)	355,162
Plan fiduciary net position - beginning	7,923,589	7,568,427
Plan fiduciary net position - ending (b)	<u>\$ 7,675,282</u>	<u>\$ 7,923,589</u>
Net pension liability (a-b)	<u>\$ 2,807,818</u>	<u>\$ 1,432,301</u>
Plan fiduciary net position as a percentage of total pension liability	73.22%	84.69%
Covered employee payroll	\$ 3,271,621	\$ 3,042,883
Net pension liability as a percentage of covered employee payroll	85.82%	47.07%

*GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

**Mid-Michigan District Health Department
 Required Supplementary Information
 Municipal Employees Retirement System of Michigan
 Schedule of Employers' Net Pension Liability
 September 30, 2016**

<u>Fiscal year ending September 30,</u>	<u>Total pension liability</u>	<u>Plan net position</u>	<u>Net pension liability</u>	<u>Plan net position as a % of total pension liability</u>	<u>Covered payroll</u>	<u>Net pension liability as a % of covered payroll</u>
2015	\$ 9,355,890	\$ 7,923,589	\$ 1,432,301	84.69%	\$ 3,042,883	47.07%
2016	10,483,100	7,675,282	2,807,818	73.22%	3,271,621	85.82%

*GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

Mid-Michigan District Health Department
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Other Post-Employment Benefits
September 30, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) *	Unfunded AAL (UAAL) *	Funded Ratio	Covered payroll	UAAL as a % of covered payroll
9/30/2009	\$ -	\$ 1,082,988	\$ 1,082,988	0.00%	\$ 744,592	145.45%
9/30/2012	-	308,900	308,900	0.00%	731,319	42.24%
9/30/2015	-	412,176	412,176	0.00%	914,691	45.06%

* The actuarial performed at September 30, 2009 included all employees of the Department rather than those employees actually eligible for post-employment benefits. The error was discovered prior to the September 30, 2012 actuarial being performed and was corrected at that time. A restated amount was never determined as of September 30, 2009.

The schedule of employer contributions is as follows:

Fiscal Year Ended September 30,	Annual Required Contributions	Percentage Contributed
2014	\$ 64,349	0.00%
2015	61,446	0.00%
2016	67,230	6.79%