

County of Otsego, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2012

COUNTY OF OTSEGO, MICHIGAN

BOARD OF COMMISSIONERS

Paul Beachnau
Chairman

Paul Liss
Vice Chairman

Erma Backenstose
Clark Bates
Lee Olsen
Richard Sumerix

Doug Johnson
Ken Borton
Bruce Brown

OTHER OFFICIALS

John Burt
Appointed County Administrator

Susan DeFeyter
Clerk/Register of Deeds

Diann Axford
Treasurer

Matthew Nowicki
Sheriff

Michael A. Rola
Prosecuting Attorney

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	15
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Position	17
Statement of Revenues, Expenses, and Changes in Net Position.....	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Fiduciary Net Position.....	20
COMPONENT UNITS:	
Financial Statements:	
Statement of Net Position	21
Statement of Activities.....	22
NOTES TO FINANCIAL STATEMENTS	23

REQUIRED SUPPLEMENTARY INFORMATION:

Employee Retirement and Benefit Systems:
Schedule of Funding Progress 60

Major Funds:

Budgetary Comparison Schedule – General Fund 61
Budgetary Comparison Schedule – Housing Commission Fund..... 63
Budgetary Comparison Schedule – Revenue Sharing Reserve Fund 64
Budgetary Comparison Schedule – M-TEC..... 65
Budgetary Comparison Schedule – Commission on Aging 9/30/2012 66

OTHER INFORMATION:

Combining Balance Sheet – General Fund 67

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance – General Fund 68

Combining Balance Sheet – Nonmajor Governmental Funds 69

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance – Nonmajor Governmental Funds 73

Combining Statement of Net Position – Internal Service Funds 77

Combining Statement of Revenues, Expenses, and Changes in
Net Position – Internal Service Funds 78

Combining Statement of Cash Flows –Internal Service Funds 79

Combining Statement of Net Position – Nonmajor Enterprise Funds..... 80

Combining Statement of Revenues, Expenses, and Changes in
Net Position – Nonmajor Enterprise Funds..... 81

Combining Statement of Cash Flows – Nonmajor Enterprise Funds..... 82

REPORTS ON COMPLIANCE:

Independent Auditor’s Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards* 83

Independent Auditor’s Report on Compliance for each Major Program
and on Internal Control Over Compliance Required by
OMB Circular A-133 85

Schedule of Expenditures of Federal Awards 87

Notes to Schedule of Expenditures of Federal Awards..... 89

Schedule of Findings and Questioned Costs 90

Schedule of Prior Year Audit Findings 94



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA
REBECCA A. REMONDINI, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the County of Otsego, Michigan, as of and for the year ending December 31, 2012, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Otsego County Road Commission, which represents 84 percent, 86 percent, and 68 percent, respectively, of the assets, net position, and revenue of the discretely presented component units. We did not audit the financial statements of the Commission on Aging, which represents 3 percent, 3 percent, and 11 percent, respectively, of the assets, net position, and revenue of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Road Commission and Commission on Aging, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan, as of December 31 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 11, page 60, and pages 61 through 66 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 of Otsego's basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2013 on our consideration of the County of Otsego'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 of Otsego's internal control over financial reporting and compliance.

Anderson Tackman & Co PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

May 21, 2013

Management's Discussion and Analysis

As management of the County of Otsego, 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, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Financial Highlights of the County as a Whole

- The assets of the County of Otsego exceeded its liabilities at the close of the most recent fiscal year by \$38,882,553 (*net position*). Of this amount, \$15,969,285 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net position was \$27,619,072.
- Business-type activity net position was \$11,263,481.
- Component Unit net position was \$18,765,943,

There were decreases and increases of \$487,595 and \$1,612,337 in net position in the Governmental Activities and Business-Type Activities, respectively. A decrease of \$147,155 in net position was realized in the Component Units.

In a condensed format, the table below shows the net position of Otsego County.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current Assets	\$ 15,258,473	\$ 14,786,150	\$ 9,647,114	\$ 8,597,993	\$ 24,905,587	\$ 23,384,143
Noncurrent Assets	18,811,220	19,261,460	1,714,627	1,156,870	20,525,847	20,418,330
Total Assets	\$ 34,069,693	\$ 34,047,610	\$ 11,361,741	\$ 9,754,863	\$ 45,431,434	\$ 43,802,473
Current Liabilities	\$ 2,802,434	\$ 2,296,256	\$ 98,260	\$ 103,719	\$ 2,900,694	\$ 2,399,975
Noncurrent Liabilities	3,648,187	3,644,687	-	-	3,648,187	3,644,687
Total Liabilities	6,450,621	5,940,943	98,260	103,719	6,548,881	6,044,662
Net Position						
Net Investment in						
Capital Assets	16,097,189	16,546,646	1,714,627	1,156,870	17,811,816	17,703,516
Restricted	5,101,452	5,162,293	-	-	5,101,452	5,162,293
Unrestricted	6,420,431	6,397,728	9,548,854	8,494,274	15,969,285	14,892,002
Total Net Position	\$ 27,619,072	\$ 28,106,667	\$ 11,263,481	\$ 9,651,144	\$ 38,882,553	\$ 37,757,811

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Revenues						
Charges for Services	\$ 4,022,478	\$ 4,245,757	\$ 1,117,693	\$ 1,031,767	\$ 5,140,171	\$ 5,277,524
Operating Grants and Contributions	2,580,686	4,401,884	902,110	907,449	3,482,796	5,309,333
Capital Grants and Contributions	-	649,176	730,050	109,945	730,050	759,121
General Revenues						
Property Taxes	7,526,702	7,565,163	288,752	293,016	7,815,454	7,858,179
Unrestricted Investment Earnings	379,618	309,859	73,111	14,987	452,729	324,846
Other Revenue	713,053	667,128	693,250	182,459	1,406,303	849,587
Transfers	83,000	108,000	(83,000)	(108,000)	-	-
Total Revenues	15,305,537	17,946,967	3,721,966	2,431,623	19,027,503	20,378,590
Program Expenses						
Legislative	187,337	184,733	-	-	187,337	184,733
Judicial	1,838,304	1,855,642	-	-	1,838,304	1,855,642
General Government	2,234,780	1,756,570	-	-	2,234,780	1,756,570
Public Safety	3,228,849	3,268,076	-	-	3,228,849	3,268,076
Public Works	1,631,625	2,047,810	-	-	1,631,625	2,047,810
Health and Welfare	2,665,666	2,593,878	-	-	2,665,666	2,593,878
Community & Economic Development	1,117,968	1,432,220	-	-	1,117,968	1,432,220
Recreation & Culture	1,224,093	1,297,118	-	-	1,224,093	1,297,118
Other Expenses	1,527,752	2,306,338	-	-	1,527,752	2,306,338
Interest Expense - Unallocated	136,758	75,879	-	-	136,758	75,879
Delinquent Tax Collection	-	-	165,221	189,545	165,221	189,545
Public Transit	-	-	1,818,466	1,796,156	1,818,466	1,796,156
Nonmajor Enterprise Funds	-	-	125,942	151,350	125,942	151,350
Total Expenses	15,793,132	16,818,264	2,109,629	2,137,051	17,902,761	18,955,315
Changes in Net Position	(487,595)	1,128,703	1,612,337	294,572	1,124,742	1,423,275
Net Position - Beginning	28,106,667	26,977,964	9,651,144	9,356,572	37,757,811	36,334,536
Net Position - Ending	<u>\$ 27,619,072</u>	<u>\$ 28,106,667</u>	<u>\$ 11,263,481</u>	<u>\$ 9,651,144</u>	<u>\$ 38,882,553</u>	<u>\$ 37,757,811</u>

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Otsego's basic financial statements. These statements are comprised of five components: 1) government-wide financial statements; 2) fund financial statements; 3) notes to the financial statements; 4) required supplementary information; and (5) other information.

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

The *Statement of Net Position* presents information on all of Otsego County's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Otsego County is improving or deteriorating.

The *Statement of Activities* presents information showing the amount Otsego County'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 Otsego 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). *Governmental activities* include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, recreation and culture, and other functions. *Business-type activities* include delinquent tax collections, public transit, global positioning system, metropolitan area network, homestead audit, and the operation of an inmate commissary.

The County's governmental activities also include the blending of legally separate entities (component units) for which the County is financially accountable. The *component units* include the Otsego County Road Commission, Otsego County Sportsplex, Otsego County Ambulance Corporation, Otsego County Commission on Aging, and the University Center at Gaylord. Of the entities, the Commission on Aging, while legally separate, functions for all practical purposes as a department of the County and, therefore, has been included as an integral part of the primary government. Financial information for the balance of the component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from each component unit's office as stated in Note 1.

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

Governmental Funds – Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides.

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 of Otsego maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for each major fund of the County. The major funds of the County include the general, housing commission, revenue sharing reserve, M-TEC and commission on aging funds. Data for the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Proprietary Funds – The County maintains both types of proprietary funds: enterprise and internal service. *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 its delinquent tax, tax foreclosure, global positioning system, metropolitan area network, homestead audit, and jail commissary operations. *Internal service funds* are used to accumulate and allocate costs internally among the County's various functions. Otsego County has the following internal service funds: building and grounds, administrative services and health care. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only with more detail. The proprietary fund financial statements provide separate information for each enterprise fund.

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.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Otsego County's budgeting for the major funds, which includes the original budget and final amended budget.

The combining statements referred to earlier in connection with non-major governmental funds and combining proprietary funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the governmental and business-type activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The County's net position at December 31, 2012 totaled \$38,882,553, an increase of \$1,124,742 from the prior year.

The largest portion of the County's net position, \$17,811,816 (46 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, furniture and fixtures, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. 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, \$5,101,452 (13 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$15,969,285 (41 percent) represents *unrestricted net position* that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories (net investment in capital assets, restricted, and unrestricted) of net position, both for the government as a whole, as well as for its total governmental and business-type activities.

The County's overall net position increased by \$1,124,742 during the current fiscal year. This increase is attributable to various reasons, as described in the following paragraphs:

Governmental Activities – Governmental activities decreased the County's net position by \$487,595, which is \$1,616,298 less than the prior year. This is primarily due to a decrease in revenues of \$2,641,430, offset by a decrease in expenditures of \$1,025,132.

Business-Type Activities – Business-type activities increased the County's net position by \$1,612,337 which is \$1,317,765 more than the prior year. The addition to net position was more in the current year, due to increased revenue of \$1,290,343. Expenditures also decreased \$27,422.

Financial Analysis of the County's Funds

As noted earlier, Otsego 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.

On December 31, 2012, the County's governmental funds reported combined ending fund balance of \$10,073,959, an increase of \$81,678 when compared with the prior year. This is primarily attributable to an increase in state and local sources. Of the fund balance amount, \$1,591,792 constitutes *unassigned fund balance*, which is available for meeting the County's current obligations.

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 \$1,591,792, with a total fund balance of \$3,056,352. The fund balance of the County's General Fund increased by \$367,317 during the current fiscal year. This is primarily attributable to an increase in state revenue.

The County's Housing Commission had an ending fund balance of \$101,816, a decrease of \$18,977 from the prior year.

The County's Revenue Sharing Reserve Fund had an ending fund balance of \$1,098,693. This was a new fund beginning in 2004 and was created as a result of Public Act 357 of 2004. PA 357 of 2004 involves a gradual shift of County operating property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of this restricted fund. The decrease in fund balance of \$461,536 represents the allowable expenditure amount for 2012, offset by interest income.

The County's M-TEC Fund had an ending fund balance of \$3,738 which increased \$1,731 from the prior year. The increase was the result of effectively managing expenditure levels.

The County's Commission on Aging Fund had an ending fund balance of \$795,174 which increased \$9,905 from the prior year. The increase was the result of effectively managing expenditure levels.

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

Unrestricted net position of the enterprise funds at year end amounted to \$9,548,854. The enterprise funds had an increase in net position for the year of \$1,612,337, due primarily to effectively managing expenditure levels.

Unrestricted net position of the internal service funds at year end amounted to \$798,749. The internal service funds had a decrease in net position for the year of \$93,952.

Budgetary Highlights

General Fund – Differences between the original and final amended budgets for revenue of the general fund (revenue and other financing sources) resulted in a 4 percent increase.

Differences between the original and final amended budgets for expenditures (expenditures and other financing uses) resulted in a 4 percent increase.

Overall during the year, General Fund revenues (revenue and other financing sources) were in line with the budgetary estimates but came in lower than anticipated by \$56,593 or .7 percent. Expenditures (expenditures and other financing uses) were below the budgetary estimates. Overall expenditures were under budget by \$423,910 or 5 percent. The greatest variance for both revenues and expenditures was due to the increase in property tax values and efficient spending in County departments.

Housing Commission Fund – The Housing Commission Fund had a favorable variance between the final amended budget and the actual expenditures by \$250,659 or 48 percent.

Revenue Sharing Reserve Fund – The Revenue Sharing Reserve Fund had no variance between the final amended budget and transfers out.

M-TEC – The M-TEC fund had a favorable variance between final amended budget and actual expenditures of \$20,899.

Commission on Aging – The Commission on Aging fund had an unfavorable variance between final amended budget and actual expenditures of \$139,651.

Budget-to-actual comparisons for the County's non-major special revenue funds were favorable.

Capital Asset and Debt Administration

Capital Assets. The County's investment in capital assets as of December 31, 2012, amounted to \$18,363,115 (net of accumulated depreciation) for its governmental activities. This investment in capital assets includes land and improvements, buildings and improvements, furniture and fixtures, machinery and equipment, vehicular equipment, and infrastructure. The total decrease in the County's investment in capital assets for the current fiscal year was 4 percent. Major capital asset events during the current fiscal year included the following:

- \$1,004,921 for animal control building
- \$41,550 for law enforcement vehicles
- \$270,424 for airport
- \$11,274 for Medical Examiner
- \$12,500 for building and grounds buildings
- \$1,560,007 in depreciation expense on County assets
- \$47,063 for parks and recreation

- \$13,000 for land use
- \$99,526 for Groen Nature Preserve
- \$6,176 for Commission on Aging
- \$16,366 for Library

Additional information on capital assets can be found in Note 5 of this report.

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County had total bonded debt outstanding of \$2,265,926. The County's total debt decreased by \$326,179 (13 percent) during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (State Equalized Value). The current debt limitation for the County is \$132,213,403, which is significantly in excess of the County's outstanding general obligation debt. Additional information on the County's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's 2013 budget:

- Property tax revenues are projected to increase by approximately 10 percent in 2013, mainly due to an anticipated drop off in charge backs.

Highlights of the 2013 budget are as follows:

- The cost of employee benefits continue to rise and will be monitored throughout the year.
- The County implemented staffing and benefit cuts to manage rising costs.
- The County has adopted a goal of increasing its budget stabilization fund over the course of the next several years, in order to manage its costs and cash flows.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Mr. John Burt, Otsego County Administrator at 225 West Main Street Gaylord, MI 49735.

Basic Financial Statements

Statement of Net Position
December 31, 2012

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Current Assets:				
Cash & Equivalents	\$ 8,184,367	\$ 2,396,167	\$ 10,580,534	\$ 1,750,269
Investments	2,526,204	3,708,710	6,234,914	200,000
Receivables:				
Taxes	1,615,096	2,944,549	4,559,645	1,096,242
Accounts	205,647	37,832	243,479	1,656,592
Interest	-	232,852	232,852	-
Loans	2,290,277	-	2,290,277	-
Due from Governmental Units	344,979	327,004	671,983	-
Inventories	28,154	-	28,154	658,693
Prepaid Expenses	63,749	-	63,749	-
Total Current Assets	15,258,473	9,647,114	24,905,587	5,361,796
Noncurrent Assets:				
Advance to Component Unit	448,105	-	448,105	-
Capital Assets Not Depreciated	1,942,868	99,998	2,042,866	170,157
Capital Assets (Net of Accumulated Depreciation)	16,420,247	1,614,629	18,034,876	22,646,548
Total Noncurrent Assets	18,811,220	1,714,627	20,525,847	22,816,705
TOTAL ASSETS	\$ 34,069,693	\$ 11,361,741	\$ 45,431,434	\$ 28,178,501
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 466,323	\$ 46,776	\$ 513,099	\$ 539,952
Accrued Liabilities	139,015	25,159	164,174	114,722
Other Liabilities	-	26,325	26,325	-
Advance from Government Units	-	-	-	21,054
Due to Governmental Units	612	-	612	210,860
Deferred Revenue	1,937,643	-	1,937,643	1,126,206
Interest Payable	18,841	-	18,841	-
Bonds Payable	240,000	-	240,000	30,000
Capital Lease Payable	-	-	-	17,268
Total Current Liabilities	2,802,434	98,260	2,900,694	2,060,062
Noncurrent Liabilities:				
Vested Employee Benefits	105,092	-	105,092	78,432
Advance from Primary Government	-	-	-	448,105
Bonds Payable	1,545,000	-	1,545,000	825,000
Post Employment Benefit Liabilities	1,517,169	-	1,517,169	5,987,820
Note Payable	480,926	-	480,926	-
Capital Lease Payable	-	-	-	13,139
Total Noncurrent Liabilities	3,648,187	-	3,648,187	7,352,496
TOTAL LIABILITIES	6,450,621	98,260	6,548,881	9,412,558
NET POSITION:				
Net Investment in Capital Assets	16,097,189	1,714,627	17,811,816	21,931,298
Restricted for Debt Service	251,441	-	251,441	-
Restricted for Ambulance and Emergency Services	-	-	-	423,458
Restricted for Sportsplex	-	-	-	175,103
Restricted for University Center	-	-	-	821,528
Restricted for Housing Projects	2,392,093	-	2,392,093	-
Restricted for Revenue Sharing	1,098,693	-	1,098,693	-
Restricted for Schneider Trust	44,000	-	44,000	-
Restricted for COA	750,400	-	750,400	-
Restricted for Grants	13,853	-	13,853	-
Restricted for Library	550,972	-	550,972	-
Unrestricted	6,420,431	9,548,854	15,969,285	(4,585,444)
TOTAL NET POSITION	\$ 27,619,072	\$ 11,263,481	\$ 38,882,553	\$ 18,765,943

County of Otsego, Michigan

Statement of Activities For the Year Ended December 31, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		
						Business-Type Activities	Totals	
Primary Government:								
Governmental Activities:								
Legislative	\$ 187,337	\$ -	\$ -	\$ -	\$ (187,337)	\$ -	\$ (187,337)	\$ -
Judicial	1,838,304	627,448	799,052	-	(411,804)	-	(411,804)	-
General Government	2,234,780	350,458	332,345	-	(1,551,977)	-	(1,551,977)	-
Public Safety	3,228,849	1,241,942	179,094	-	(1,807,813)	-	(1,807,813)	-
Public Works	1,631,625	1,030,587	333,869	-	(267,169)	-	(267,169)	-
Health & Welfare	2,665,666	208,897	698,092	-	(1,758,677)	-	(1,758,677)	-
Community/Economic Development	1,117,968	77,352	196,660	-	(843,956)	-	(843,956)	-
Recreation and Culture	1,224,093	485,794	41,574	-	(696,725)	-	(696,725)	-
Other	1,527,752	-	-	-	(1,527,752)	-	(1,527,752)	-
Interest - Unallocated	136,758	-	-	-	(136,758)	-	(136,758)	-
Total Governmental Activities	<u>15,793,132</u>	<u>4,022,478</u>	<u>2,580,686</u>	<u>-</u>	<u>(9,189,968)</u>	<u>-</u>	<u>(9,189,968)</u>	<u>-</u>
Business-type Activities:								
Delinquent Tax Collection	165,221	516,233	-	-	-	351,012	351,012	-
Public Transit	1,818,466	385,003	902,110	730,050	-	198,697	198,697	-
Non-Major Enterprise Funds	125,942	216,457	-	-	-	90,515	90,515	-
Total Business-type Activities	<u>2,109,629</u>	<u>1,117,693</u>	<u>902,110</u>	<u>730,050</u>	<u>-</u>	<u>640,224</u>	<u>640,224</u>	<u>-</u>
Total Primary Government	<u>\$ 17,902,761</u>	<u>\$ 5,140,171</u>	<u>\$ 3,482,796</u>	<u>\$ 730,050</u>	<u>(9,189,968)</u>	<u>640,224</u>	<u>(8,549,744)</u>	<u>-</u>
Component Units:								
Road Commission	\$ 7,692,222	\$ 1,082,473	\$ 6,453,947	\$ -	-	-	-	(155,802)
Ambulance	1,947,963	1,498,553	16,280	-	-	-	-	(433,130)
University Center	817,040	315,056	-	-	-	-	-	(501,984)
Sportsplex	793,550	519,013	3,000	-	-	-	-	(271,537)
Total Component Units	<u>11,250,775</u>	<u>3,415,095</u>	<u>6,473,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,362,453)</u>
Total	<u>\$ 29,153,536</u>	<u>\$ 8,555,266</u>	<u>\$ 9,956,023</u>	<u>\$ 730,050</u>	<u>(9,189,968)</u>	<u>640,224</u>	<u>(8,549,744)</u>	<u>-</u>
General Revenues and Transfers:								
Taxes					7,526,702	288,752	7,815,454	1,177,667
Investment Earnings (Loss)					379,618	73,111	452,729	16,867
Transfers					83,000	(83,000)	-	-
Other					713,053	693,250	1,406,303	20,764
Total General Revenues and Transfers					<u>8,702,373</u>	<u>972,113</u>	<u>9,674,486</u>	<u>1,215,298</u>
Changes in Net Position					<u>(487,595)</u>	<u>1,612,337</u>	<u>1,124,742</u>	<u>(147,155)</u>
Net Position - Beginning					<u>28,106,667</u>	<u>9,651,144</u>	<u>37,757,811</u>	<u>18,913,098</u>
Net Position - Ending					<u>\$ 27,619,072</u>	<u>\$ 11,263,481</u>	<u>\$ 38,882,553</u>	<u>\$ 18,765,943</u>

**Balance Sheet
Governmental Funds
December 31, 2012**

	General	Housing Commission	Revenue Sharing Reserve	M-TBC	Commission on Aging 9/30/2012	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash & Equivalents - Unrestricted	\$ 2,370,850	\$ 110,844	\$ 1,098,693	\$ 3,738	\$ 772,931	\$ 3,554,507	\$ 7,861,563
Investments - Unrestricted	976,410	-	-	-	44,000	1,040,221	2,060,631
Receivables:							
Taxes	17,996	-	-	746,523	-	850,577	1,615,096
Accounts	19,734	-	-	-	13,887	167,636	201,257
Loans	-	2,290,277	-	-	-	-	2,290,277
Due from Other Funds	10,000	-	-	-	-	32,504	42,504
Due from Governmental Units	245,381	-	-	-	-	98,898	344,279
Inventories	14,600	-	-	-	774	12,455	27,829
Prepaid Expense	9,439	-	-	-	-	3,659	13,098
Long-Term Advances to Other Funds - Component Units	-	-	-	-	-	448,105	448,105
TOTAL ASSETS	\$ 3,614,410	\$ 2,401,121	\$ 1,098,693	\$ 750,261	\$ 831,592	\$ 6,208,562	\$ 14,904,639
LIABILITIES:							
Due to Other Funds	\$ -	\$ 8,337	\$ -	\$ -	\$ -	\$ 42,504	\$ 42,504
Accounts Payable	145,610	-	-	-	-	269,674	423,621
Due to Other Governmental Units	-	-	-	-	-	612	612
Accrued Liabilities	80,868	691	-	-	27,455	27,009	136,023
Deferred Revenue	331,580	2,290,277	-	746,523	8,963	850,577	4,227,920
TOTAL LIABILITIES	558,058	2,299,305	-	746,523	36,418	1,190,376	4,830,680
FUND BALANCES:							
Nonspendable	24,039	-	-	-	774	464,219	489,032
Restricted for Schneider Trust	-	-	-	-	44,000	-	44,000
Restricted for COA	-	-	-	-	750,400	-	750,400
Restricted for Debt Service	-	-	-	-	-	251,441	251,441
Restricted for Housing Projects	-	101,816	-	-	-	-	101,816
Restricted for Revenue Sharing	-	-	1,098,693	-	-	-	1,098,693
Restricted for Library	-	-	-	3,738	-	547,234	550,972
Restricted for Grants	13,853	-	-	-	-	-	13,853
Committed	-	-	-	-	-	1,552,966	1,552,966
Assigned	1,426,668	-	-	-	-	2,202,326	3,628,994
Unassigned	1,591,792	-	-	-	-	-	1,591,792
TOTAL FUND BALANCES	3,056,352	101,816	1,098,693	3,738	795,174	5,018,186	10,073,959
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,614,410	\$ 2,401,121	\$ 1,098,693	\$ 750,261	\$ 831,592	\$ 6,208,562	

Reconciliation to amounts reported for governmental activities in the statement of net position:

- Capital assets used by governmental activities
- Long term notes payable for governmental activities
- Vested employee benefits and OPEB liabilities
- Deferred revenue recognized as current revenue
- Internal service funds
- Accrued interest expense
- Net position of governmental activities

	18,363,115
	(2,665,926)
	(1,622,261)
	2,290,277
	798,749
	(18,841)
	<u>\$ 27,619,072</u>

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended December 31, 2012**

	General	Housing Commission	Revenue Sharing Reserve	Mi-TEC	Commission on Aging 9/30/2012	Other Governmental Funds	Total Governmental Funds
REVENUES:							
Taxes	\$ 4,565,004	-	\$ -	\$ 753,671	\$ 1,155,477	\$ 1,052,550	\$ 7,526,702
Licenses & Permits	33,119	-	-	-	-	-	33,119
Federal Sources	362,370	29,888	-	-	146,266	411,616	950,140
State Sources	870,491	-	-	-	68,765	288,210	1,227,466
Local Sources	17,343	166,772	-	-	170,451	48,514	403,080
Charges for Services	931,070	-	-	-	66,968	2,306,422	3,304,460
Fines & Forfeits	8,541	-	-	-	-	165,109	173,650
Interest & Rentals	100,150	116	9,246	-	3,001	266,508	379,021
Other Revenue	312,325	54,837	-	3,920	44,182	686,753	1,102,017
TOTAL REVENUES	7,200,413	251,613	9,246	757,591	1,655,110	5,225,682	15,099,655
EXPENDITURES:							
Legislative	187,337	-	-	-	-	-	187,337
Judicial	1,772,386	-	-	-	-	67,000	1,839,386
General Government	1,806,053	-	-	-	-	120,707	1,926,760
Public Safety	1,872,936	-	-	-	-	1,376,325	3,249,261
Public Works	4,250	-	-	-	-	1,236,003	1,240,253
Health & Welfare	527,717	-	-	-	1,645,205	493,920	2,666,842
Community/Economic Development	95,239	270,590	-	755,860	-	1,121,439	1,121,689
Recreation and Culture	-	-	-	-	-	-	-
Other Expenditures	406,934	-	-	-	-	877,297	406,934
Capital Outlay	-	-	-	-	-	877,297	877,297
Debt Service	-	-	-	-	-	463,779	463,779
TOTAL EXPENDITURES	6,672,852	270,590	-	755,860	1,645,205	5,756,470	15,100,977
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	527,561	(18,977)	9,246	1,731	9,905	(530,788)	(1,322)
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	588,082	-	-	-	-	763,426	1,351,508
Operating Transfers Out	(748,326)	-	(470,782)	-	-	(49,400)	(1,268,508)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	367,317	(18,977)	(461,536)	1,731	9,905	183,238	81,678
FUND BALANCES, JANUARY 1	2,689,035	120,793	1,560,229	2,007	785,269	4,834,948	9,992,281
FUND BALANCES, DECEMBER 31	\$ 3,056,352	\$ 101,816	\$ 1,098,693	\$ 3,738	\$ 795,174	\$ 5,018,186	\$ 10,073,959

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2012**

Net changes in fund balances - total governmental funds	\$ 81,678
<p>The change in net position reported for governmental activities in the statement of activities is different because:</p>	
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation, (\$1,387,626) exceeded capital outlay, \$611,950.</p>	
	(775,676)
<p>Revenues earned but not available for current resources are not reported in the funds.</p>	
Housing Commission - loan increase	216,834
<p>Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>	
<p>Principal repayments:</p>	
Bonds Payable	315,000
Capital Leases	11,179
<p>Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:</p>	
Vested employee benefits	21
Post employment benefit liability	(243,521)
Accrued interest expense	842
Internal service fund activity	<u>(93,952)</u>
Changes in net position of governmental activities	<u>\$ (487,595)</u>

Statement of Net Position
 Proprietary Funds
 December 31, 2012

	Business-Type Activities - Enterprise Funds				Governmental
	Major			Total Enterprise Funds	Activities
	Delinquent Tax Fund	Bus System 9/30/2012	Non-Major Enterprise Funds		Internal Service Funds
ASSETS:					
Current Assets					
Cash & Equivalents	\$ 1,783,826	\$ 91,575	\$ 520,766	\$ 2,396,167	\$ 322,804
Investments	3,409,828	-	298,882	3,708,710	465,573
Taxes Receivable	2,944,549	-	-	2,944,549	4,390
Interest Receivable	232,852	-	-	232,852	-
Accounts Receivable	-	12,864	24,968	37,832	-
Due from Governmental Units	45,000	282,004	-	327,004	700
Prepaid Expense	-	-	-	-	50,651
Inventory	-	-	-	-	325
Total Current Assets	8,416,055	386,443	844,616	9,647,114	844,443
Noncurrent Assets					
Capital Assets (Not Depreciated)	-	99,998	-	99,998	-
Capital Assets (Net of Accumulated Depreciation)	-	1,479,343	135,286	1,614,629	-
Total Noncurrent Assets	-	1,579,341	135,286	1,714,627	-
TOTAL ASSETS	\$ 8,416,055	\$ 1,965,784	\$ 979,902	\$ 11,361,741	\$ 844,443
LIABILITIES:					
Current Liabilities					
Accounts Payable	\$ 17,273	\$ 25,067	\$ 4,436	\$ 46,776	\$ 42,702
Accrued Liabilities	1,664	21,832	1,663	25,159	2,992
Other Liabilities	-	26,325	-	26,325	-
Total Current Liabilities	18,937	73,224	6,099	98,260	45,694
TOTAL LIABILITIES	18,937	73,224	6,099	98,260	45,694
NET POSITION:					
Net Investment in Capital Assets	-	1,579,341	135,286	1,714,627	-
Unrestricted	8,397,118	313,219	838,517	9,548,854	798,749
TOTAL NET POSITION	\$ 8,397,118	\$ 1,892,560	\$ 973,803	\$ 11,263,481	\$ 798,749

County of Otsego, Michigan

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds			Governmental	
	Major			Activities	
	Delinquent Tax Fund	Bus System 9/30/2012	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:					
Local Sources	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ -
Charges for Services	153,929	385,003	216,457	755,389	1,719,677
Interest on Delinquent Taxes	362,304	-	-	362,304	-
Other Revenues	651,577	-	-	651,577	4,656
TOTAL REVENUES	1,167,810	385,003	221,457	1,774,270	1,724,333
OPERATING EXPENSES:					
Salaries, Wages, and Fringe Benefits	44,904	1,196,366	47,369	1,288,639	383,252
Contractual Services	101,520	-	27,341	128,861	232,917
Materials and Supplies	2,864	-	33,445	36,309	3,286
Equipment Repair and Maintenance	-	-	-	-	46,041
Utilities	-	-	-	-	183,701
Depreciation	-	160,081	12,300	172,381	-
Other Expenses	15,933	462,019	5,487	483,439	969,685
TOTAL EXPENSES	165,221	1,818,466	125,942	2,109,629	1,818,882
OPERATING INCOME (LOSS)	1,002,589	(1,433,463)	95,515	(335,359)	(94,549)
NON-OPERATING REVENUES (EXPENSES):					
State Operating Grants	-	596,679	-	596,679	-
Federal Operating Grants	-	305,431	-	305,431	-
Interest Earned on Investments	56,900	-	16,211	73,111	597
Property Taxes Levied	-	288,752	-	288,752	-
Other	-	36,673	-	36,673	-
TOTAL NONOPERATING REVENUES (EXPENSES)	56,900	1,227,535	16,211	1,300,646	597
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND INTERFUND TRANSFERS	1,059,489	(205,928)	111,726	965,287	(93,952)
CAPITAL CONTRIBUTIONS:					
Capital Contributions From State Sources	-	146,010	-	146,010	-
Capital Contributions From Federal Sources	-	584,040	-	584,040	-
INTERFUND TRANSFERS:					
Operating Transfers In	-	-	17,000	17,000	-
Operating Transfers Out	(100,000)	-	-	(100,000)	-
CHANGES IN NET POSITION	959,489	524,122	128,726	1,612,337	(93,952)
NET POSITION, JANUARY 1	7,437,629	1,368,438	845,077	9,651,144	892,701
NET POSITION, DECEMBER 31	\$ 8,397,118	\$ 1,892,560	\$ 973,803	\$ 11,263,481	\$ 798,749

County of Otsego, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major			Total Enterprise Funds	Internal Service Funds
	Delinquent Tax Fund	Bus System 9/30/2012	Non-Major Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 760,506	\$ 385,003	\$ 192,392	\$ 1,337,901	\$ 1,726,360
Interest on Delinquent Taxes	416,933	-	-	416,933	-
Net Delinquent Taxes Collected (Purchased)	201,428	-	-	201,428	-
Payments to Suppliers	(114,484)	(485,131)	(114,491)	(714,106)	(1,426,820)
Payments to Employees for Services and Benefits	(45,966)	(1,193,648)	-	(1,239,614)	(382,906)
Net Cash Provided (Used) by Operating Activities	1,218,417	(1,293,776)	77,901	2,542	(83,366)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
State Grants	-	596,679	-	596,679	-
Federal Grants	-	305,431	-	305,431	-
Property Tax	-	288,752	-	288,752	-
Other	-	36,673	-	36,673	-
Operating Transfers In	-	-	17,000	17,000	-
Operating Transfers Out	(100,000)	-	-	(100,000)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(100,000)	1,227,535	17,000	1,144,535	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Federal and State Capital Assistance	-	730,050	-	730,050	-
Capital Assets Purchased	-	(730,137)	-	(730,137)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(87)	-	(87)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net Sale or (Purchase) of Investments	(1,347,009)	-	87,373	(1,259,636)	(9,234)
Interest Earnings	56,900	-	16,211	73,111	597
Net Cash Provided (Used) by Investing Activities	(1,290,109)	-	103,584	(1,186,525)	(8,637)
Net Increase (Decrease) in Cash and Equivalents	(171,692)	(66,328)	198,485	(39,535)	(92,003)
Balances - Beginning of the Year	1,955,518	157,903	322,281	2,435,702	414,807
Balances - End of the Year	\$ 1,783,826	\$ 91,575	\$ 520,766	\$ 2,396,167	\$ 322,804
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 1,002,589	\$ (1,433,463)	\$ 95,515	\$ (335,359)	\$ (94,549)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	160,081	12,300	172,381	-
Change in Assets and Liabilities:					
Taxes Receivable	201,428	-	-	201,428	-
Interest Receivable	54,629	-	-	54,629	-
Accounts Receivable	-	(21,130)	(18,947)	(40,077)	1,173
Due from Other Funds	-	-	-	-	-
Due from Other Governmental Units	(45,000)	-	-	(45,000)	35
Prepaid Expense	-	-	-	-	819
Accounts Payable	5,833	(1,982)	(2,512)	1,339	8,810
Accrued Liabilities	(1,062)	2,718	(8,455)	(6,799)	346
Net Cash Provided (Used) by Operating Activities	\$ 1,218,417	\$ (1,293,776)	\$ 77,901	\$ 2,542	\$ (83,366)

See accompanying notes to financial statements.

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	<u>Agency Funds</u>
ASSETS:	
Cash and Equivalents	\$ 1,423,159
 TOTAL ASSETS	 <u>\$ 1,423,159</u>
 LIABILITIES:	
Undistributed Tax Collections	\$ 1,251,245
Bonds, Restitutions and Payables to Others	<u>171,914</u>
 TOTAL LIABILITIES	 <u>\$ 1,423,159</u>

THIS PAGE LEFT BLANK INTENTIONALLY

Component Units

County of Otsego, Michigan

Statement of Net Position Component Units December 31, 2012

	Road Commission	Ambulance Corporation	University Center	Sportsplex	Totals
ASSETS:					
Current Assets:					
Cash and Equivalents	\$ 463,240	\$ 303,817	\$ 918,451	\$ 64,761	\$ 1,750,269
Investments	100,000	-	-	100,000	200,000
Receivables:					
Taxes	-	460,042	636,200	-	1,096,242
Accounts	992,618	623,700	19,570	20,704	1,656,592
Inventories	632,407	-	-	26,286	658,693
Total Current Assets	2,188,265	1,387,559	1,574,221	211,751	5,361,796
Noncurrent Assets:					
Capital Assets (Not Depreciated)	170,157	-	-	-	170,157
Capital Assets (Net of Accumulated Depreciation)	21,342,488	1,056,220	247,840	-	22,646,548
Total Noncurrent Assets	21,512,645	1,056,220	247,840	-	22,816,705
TOTAL ASSETS	\$ 23,700,910	\$ 2,443,779	\$ 1,822,061	\$ 211,751	\$ 28,178,501
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 445,249	\$ 18,146	\$ 70,767	\$ 5,790	\$ 539,952
Accrued Liabilities	65,074	16,754	32,000	894	114,722
Due to Governmental Units	197,134	-	13,726	-	210,860
Advance from Government Units	-	21,054	-	-	21,054
Deferred Revenue	-	460,042	636,200	29,964	1,126,206
Capital Lease Payable	-	17,268	-	-	17,268
Bonds Payable	30,000	-	-	-	30,000
Total Current Liabilities	737,457	533,264	752,693	36,648	2,060,062
Noncurrent Liabilities:					
Advance from Primary Government	-	448,105	-	-	448,105
Bonds Payable	825,000	-	-	-	825,000
Post Employment Benefit Liabilities	5,987,820	-	-	-	5,987,820
Vested Employee Benefits	78,432	-	-	-	78,432
Capital Lease Payable	-	13,139	-	-	13,139
Total Noncurrent Liabilities	6,891,252	461,244	-	-	7,352,496
TOTAL LIABILITIES	7,628,709	994,508	752,693	36,648	9,412,558
NET POSITION:					
Net Investment in Capital Assets	20,657,645	1,025,813	247,840	-	21,931,298
Restricted for Ambulance and Emergency Services	-	423,458	-	-	423,458
Restricted for Sportsplex	-	-	-	175,103	175,103
Restricted for University Center	-	-	821,528	-	821,528
Unrestricted	(4,585,444)	-	-	-	(4,585,444)
TOTAL NET POSITION	\$ 16,072,201	\$ 1,449,271	\$ 1,069,368	\$ 175,103	\$ 18,765,943

County of Otsego, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Road Commission	Ambulance Corporation	University Center	Sportsplex	Total
Road Commission:								
Public Works	\$ 7,692,222	\$ 1,082,473	\$ 6,453,947	\$ (155,802)	\$ -	\$ -	\$ -	\$ (155,802)
Ambulance Corporation:								
Health & Welfare	1,947,963	1,498,553	16,280	-	(433,130)	-	-	(433,130)
University Center:								
Recreation and Culture	817,040	315,056	-	-	-	(501,984)	-	(501,984)
Sportsplex:								
Recreation and Culture	793,550	519,013	3,000	-	-	-	(271,537)	(271,537)
Total Component Units	<u>\$ 11,250,775</u>	<u>\$ 3,415,095</u>	<u>\$ 6,473,227</u>	<u>(155,802)</u>	<u>(433,130)</u>	<u>(501,984)</u>	<u>(271,537)</u>	<u>(1,362,453)</u>
General Revenues:								
Property Tax				-	465,337	419,441	292,889	1,177,667
Investment Earnings				930	6,014	9,371	552	16,867
Other				(22)	10,649	1,437	8,700	20,764
Total General Revenues				<u>908</u>	<u>482,000</u>	<u>430,249</u>	<u>302,141</u>	<u>1,215,298</u>
Changes in Net Position				<u>(154,894)</u>	<u>48,870</u>	<u>(71,735)</u>	<u>30,604</u>	<u>(147,155)</u>
Net Position - Beginning				<u>16,227,095</u>	<u>1,400,401</u>	<u>1,141,103</u>	<u>144,499</u>	<u>18,913,098</u>
Net Position - Ending				<u>\$ 16,072,201</u>	<u>\$ 1,449,271</u>	<u>\$ 1,069,368</u>	<u>\$ 175,103</u>	<u>\$ 18,765,943</u>

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County was organized in 1840 and covers an area of approximately 527 square miles divided into nine townships, one village, and one city. The County seat is located in the City of Gaylord. The County of Otsego operates under an elected board of commissioners (nine members) with an appointed county coordinator who assists with day-to-day operations. The County of Otsego provides services to its more than 24,000 residents in many areas including law enforcement, administration of justice, community enrichment, economic development, and human services.

The accounting policies of the County of Otsego conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Otsego County.

A – Reporting Entity:

The accompanying financial statements present the government and its component units; entities for which the government is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the government's operations. The criteria established by the Governmental Accounting Standards Board (GASB) for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included. The component unit total is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description of each component unit). Each discretely presented component unit is reported separately in the financial statements.

Blended Component Units

Building Authority – The Otsego County Building Authority is governed by a three member board appointed by the county board of commissioners. Although it is legally separate from the County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings. The financial statements of the Otsego County Building Authority are reported in the County's Debt Service Fund and Capital Projects Fund as presented in this report.

Bus System – The Otsego County Bus System is not legally separate but is administered by a three member standing committee of the county board of commissioners. The Bus System Committee may not issue debt and the tax levy is subject to county board of commissioners' approval. The Bus System taxes are levied under the taxing authority of the County, as approved by the county electors, and is included as part of the County's total tax levy as well as reported in the Public Transit Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commission on Aging – The Otsego County Commission on Aging (Commission) is not legally separate, but is administered by an advisory board of directors (board) with twelve members. Members of the board are selected by the County from nine districts and an additional three at-large members. The Commission may not issue debt and the tax levy is subject to county board of commissioners' approval. The Commission's taxes are levied under the taxing authority of the County, as approved by the county electors, and is included as part of the County's total tax levy as well as reported in the Commission on Aging Fund.

Discretely Presented Component Units

County Road Commission – The Otsego County Road Commission which is established pursuant to the County Road Law (MCL 224.1) is governed by a three member board of county road commissioners elected biannually to serve a six year term. The Road Commission may not issue debt without the County's approval and the tax levy is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the county electors, and would be included as part of the County's total tax levy as well as reported in the County Road Fund.

Otsego County Sportsplex – The Otsego County Sportsplex, a nonprofit corporation that was established pursuant to the provisions of Public Act 162 of 1982, has an agreement with the County of Otsego to operate and maintain a recreational and sports complex for Otsego County. The sports complex was constructed during 1995 and opened in early 1996. The Sportsplex is operated by a board of directors, which consist of between seven to fifteen members. Members are elected by the affirmative vote of a majority of the directors. The Sportsplex may not issue debt without the County's approval and the tax levy is subject to county board of commissioners' approval. The Sportsplex taxes are levied under the taxing authority of the County, as approved by the County electors and are included as part of the County's total tax levy recorded in the County's Sportsplex Fund. The county board of commissioners also approves the budget and fee charges. Although this is a nonprofit corporation, the activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

Otsego County Ambulance Corporation, Inc. – The Otsego County Ambulance Corporation, Inc., a nonprofit corporation which was established pursuant to the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, has an agreement with the County of Otsego to provide ambulance service in and about the County of Otsego. A nine member board governs the Ambulance Corporation. The Ambulance Corporation may not issue debt without the County's approval and a tax levy is subject to county board of commissioners' approval. If approval is granted, the Ambulance's taxes are levied under the taxing authority of the County, as approved by the county electors, and would be included as part of the County's total tax levy as well as in the Ambulance Fund. All assets are in the name of the County.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Otsego County University Center – On December 7, 1999, the electors of the County of Otsego authorized the County Board of Commissioners to levy a tax not to exceed .56 mills (\$.56 per \$1,000) for a period of 20 years to provide the funds required to acquire or construct, furnish, equip and operate the Otsego County University Center (the facility) for use by the residents of the County and the public. On July 1, 2000, the County of Otsego entered into an agreement for operating and maintaining the facility with The University Center at Gaylord (University Center), a Michigan nonprofit corporation organized on November 3, 1989 pursuant to the provisions of Act 162, Public Acts of 1982, as amended. The University Center is governed by an eleven member board of directors whose mission is to facilitate the delivery of quality, state-of-the-art education and training that is responsive to personal growth and business needs throughout Otsego County and Northern Michigan through a consortium of colleges offering degrees, enrichment and skill certification programs. The agreement, which expires December 31, 2020 unless amended, requires the University Center to submit by July 1st annually a proposed budget for the operation of the facility for the subsequent fiscal year beginning January 1st. Prior to September 1st each year, the county board of commissioners shall either approve the final budget as submitted for the operation of the facility or reject the budget setting forth reasons why it was not approved. Once approved, the county board of commissioners shall approve a resolution authorizing the levy of such amount of the millage. The facility's taxes are levied under the taxing authority of the County and are included as part of the County's total tax levy reported in the Otsego County University Center Fund.

Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the County Clerk's Office at the courthouse.

Administrative Offices

Otsego County Bus System
1254 Energy Drive
Gaylord, Michigan 49735

Otsego County Road Commission
Industrial Park, P.O. Box 537
Gaylord, Michigan 49735

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, Michigan 49735

Otsego County University Center
80 Livingston Boulevard
Gaylord, Michigan 49735

Otsego County Ambulance Corporation, Inc.
100 McLouth, P.O. Box 642
Gaylord, Michigan 49735

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Northwest Michigan Community Health Agency – Northwest Michigan Community Health Agency provides health service for Otsego County. The Counties of Otsego, Antrim, Emmet, and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the records of Charlevoix County. The funding formula approved by the member Counties is based pro rata on each unit’s population and equalized valuation to the district’s total population and valuation. Member Counties’ percentages of the net operation budget for the year 2012 were:

Otsego	22.7 percent	Antrim	22.2 percent
Charlevoix	24.4 percent	Emmet	30.7 percent

Otsego County’s appropriation and cigarette tax to the Health Agency for the year was \$902.

Michigan Technical Education Center (M-TEC) – Kirtland Community College, a community college district established pursuant to the provisions of Public Act 331 of 1996, obtained funding through the Michigan Economic Development Corporation (MEDC) to construct and equip the Michigan Technical Center (M-TEC), and educational facility in the County of Otsego. On December 7, 1999, the electors of the County authorized a tax levy not to exceed .65 mills for a period of twenty years for the purpose of generating funds to operate the facility. The facility provides vocational, technical, job skills, or workforce development programs and services. Pursuant to the operating agreement, Kirtland established an advisory board (which includes representatives of the county) and is to report its preliminary, final and amended M-TEC budgets to the County’s board. Financial records for M-TEC are recorded and maintained by the Kirtland Community College and audited separately. Otsego County’s tax revenues amounted to \$753,671 for which Otsego appropriated \$756,843 to Kirtland Community College.

The Michigan Technical Education Center (M-TEC) is used in conjunction with and occupied by the University Center established and operated by the University Center of Gaylord, a non-profit corporation.

North Country Community Mental Health – The North Country Community Mental Health consists of the counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska, and Otsego. Financial records for the board are recorded and maintained by the mental health and audited separately.

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The 2012 local match for Otsego County was \$70,502.

Fiscal Year End Other Than December 31, 2012

The financial information presented in this report is for the year ended December 31, 2012, except for the following funds:

<u>Fund</u>	<u>Fund Presentation</u>	<u>Fiscal Year End</u>
Commission on Aging	Special Revenue Fund	September 30, 2012
Bus System	Enterprise Fund	September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B – 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 units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally 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 certain legally separate component units 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 revenue.

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 funds and major individual enterprise funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as needed.

C – 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. Revenue is 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 revenue 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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. Grant revenues are considered to be available when all eligibility requirements imposed by the grantor have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable – Current or Property Taxes

The County of Otsego property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Otsego as of the preceding December 31st.

Although the County of Otsego 2011 ad valorem tax is levied and collectible on December 1, 2011 and the 2012 ad valorem tax is levied and collectible on July 1, 2012, it is the County of Otsego's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax fund within one year.

The 2011 taxable valuation of Otsego County amounted to \$1,170,785,765 on which ad valorem taxes of .3000 mills for Animal Control, 1.000 mill for Commission on Aging, .1875 mills for County Parks, .2500 for the Bus System, .4000 mills for Library, .4000 for Ambulance, .6464 for M-TEC, .5569 for the University Center, and .2500 for Sportsplex Operating. These amounts are recognized in the respective special revenue fund, debt service fund, and component unit financial statements as revenue.

The July 1, 2012 taxable valuation of the County of Otsego totaled \$1,155,363,908 on which ad valorem taxes levied consisted of 4.0502 mills for the General Fund. This amount is recognized as revenue in the General Fund.

The taxes receivable are recorded in the financial statements with an offsetting credit to deferred revenue based on the 2012 taxable valuation. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2012 and accordingly, do not reflect taxes receivable and deferred revenue. Tax receivables are recorded in the General Fund for the summer taxes not collected at year end. The corresponding revenue is recorded as tax revenue.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Housing Commission

This Fund accounts for grant revenue and contributions reserved for the improvement of housing within the County.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Sharing Reserve Fund

This Fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

M-TEC

This Fund accounts for activities of an educational facility providing workforce development programs.

Commission on Aging

This Fund accounts for activities related to meeting the needs of older adults residing in the County.

The County reports the following major proprietary funds:

Delinquent Tax Fund

This Fund accounts for the collection of delinquent taxes.

Bus System

This Fund accounts for the operation of the public transit system.

Additionally, the County reports the following fund types:

Special Revenue Funds

These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds

These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital Project Funds

These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Internal Service Funds

This Fund accounts for buildings and grounds, administrative services, and employee health benefits provided to other departments or agencies of the governmental unit on a cost reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Position or Fund Balance:

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – Inventories are valued at cost, using the consumption method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories – Primary Government

General Fund – The inventory consists of postage and supplies on hand valued at cost in the amount of \$14,600 at December 31, 2012.

Commission on Aging – \$774 of inventory was on hand at September 30, 2012.

Airport – The inventory at the airport consists of fuel on hand based on average cost with a value of \$12,455 at December 31, 2012.

Inventories – Component Units

Road Commission – Inventories amounting to \$632,407 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

Sportsplex – Inventory consist of items in the Pro Shop with a value of \$26,286.

Accounts Receivable – Component Unit

Ambulance – The accounts receivable balance is net of allowance for doubtful accounts of \$1,206,000.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings	40 years
Bus Operating Facility	12 to 20 years
Shop Equipment and Furniture	3 to 10 years
Vehicles	3 to 7 years
Office Equipment	3 to 10 years
Other Infrastructure	20 years

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rate is designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Vested Employee Benefits (Vacation and Sick Leave)

It is the County's policy to permit employees to accumulate earned but unused sick for the library employees and vacation pay benefits for all of the employees with certain limitations which vary among employee classification. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year end.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The County has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The County has \$489,032 in Nonspendable fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The County has \$2,811,175 in Restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County. These amounts cannot be used for any other purpose unless the County removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The County has \$1,552,966 in Committed fund balance.
- Assigned: This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the County through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The County has Assigned funds in the amount of \$3,628,994.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The County would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Long-Term Obligations – In the government-wide financial statements and the 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.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

Cost Allocations – The Bus System has a cost allocation plan for all allocated expenses that are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation. These allocated expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program.

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the May 21, 2013, which is the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

The Commission on Aging violated provisions of the Act for line items as indicated on page 66.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents –					
Unrestricted	\$ 8,184,367	\$ 2,396,167	\$ 10,580,534	\$ 1,423,159	\$ 1,750,269
Investments Unrestricted	<u>2,526,204</u>	<u>3,708,710</u>	<u>6,234,914</u>	-	<u>200,000</u>
Total	<u>\$ 10,710,571</u>	<u>\$ 6,104,877</u>	<u>\$ 16,815,448</u>	<u>\$ 1,423,159</u>	<u>\$ 1,950,269</u>
		<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	
Bank Deposits (checking and savings accounts, certificates of deposit)		\$ 10,562,294	\$ 1,423,159	\$ 1,750,069	
Petty Cash and Cash on Hand		<u>18,240</u>	-	<u>200</u>	
Total		<u>\$ 10,580,534</u>	<u>\$ 1,423,159</u>	<u>\$ 1,750,269</u>	

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	<u>Rating</u>
Investments:						
Money Markets	\$ 1,006,846	\$ 1,006,846	\$ -	\$ -	\$ -	N/A
Certificates of Deposit	1,000,000	-	1,000,000	-	-	N/A
U.S. Treasury Securities	500,000	-	-	-	500,000	AAA
Asset Backed Securities	<u>3,928,068</u>	-	-	-	<u>3,928,068</u>	AAA
Total Investments	<u>\$ 6,434,914</u>	<u>\$ 1,006,846</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 4,428,068</u>	

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial credit risk. 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 securities that are in the possession of an outside party. Of the County's \$6,434,914 in investments, all are in the name of the County. Money Markets are unrated or are not available from the rating agency.

Custodial deposit credit risk. Custodial deposit 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 custodial deposit credit risk. As of year end, \$6,241,214 of the County's bank balance of \$12,544,096 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Statutory Authority:

An act (PA 152) to amend 1943 PA 20, entitled "An act relative to the investment of funds of public corporations of the state; and to validate certain investments," by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - RECEIVABLES

Loans receivable – Housing Commission Fund (Major Fund)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0% to 3.5% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation, or rehabilitation of residential buildings. At December 31, 2012, the total outstanding loans were \$2,290,277.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,771,978	\$ 13,765	\$ -	\$ 1,785,743
Construction in Progress	<u>907,018</u>	<u>155,357</u>	<u>(905,250)</u>	<u>157,125</u>
Subtotal	<u>2,678,996</u>	<u>169,122</u>	<u>(905,250)</u>	<u>1,942,868</u>
<i>Capital assets being depreciated:</i>				
Buildings	14,961,265	1,122,045	-	16,083,310
Furniture and Fixtures	495,035	-	-	495,035
Equipment:				
Data Handling	1,176,921	16,366	-	1,193,287
Other Equipment	2,177,020	34,374	-	2,211,394
Commission on Aging	134,013	6,176	-	140,189
Vehicles	1,859,900	41,550	-	1,901,450
Infrastructure	<u>12,081,115</u>	<u>127,567</u>	<u>-</u>	<u>12,208,682</u>
Subtotal	<u>32,885,269</u>	<u>1,348,078</u>	<u>-</u>	<u>34,233,347</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(8,009,615)	(618,859)	-	(8,628,474)
Furniture and Fixtures	(246,389)	(34,839)	-	(281,228)
Equipment:				
Data Handling	(1,038,206)	(40,217)	-	(1,078,423)
Other Equipment	(1,014,999)	(17,958)	-	(1,032,957)
Commission on Aging	(111,608)	(6,989)	-	(118,597)
Vehicles	(1,680,235)	(102,563)	-	(1,782,798)
Infrastructure	<u>(4,324,422)</u>	<u>(566,201)</u>	<u>-</u>	<u>(4,890,623)</u>
Subtotal	<u>(16,425,474)</u>	<u>(1,387,626)</u>	<u>-</u>	<u>(17,813,100)</u>
Net Capital Assets Being Depreciated	<u>16,459,795</u>	<u>(39,548)</u>	<u>-</u>	<u>16,420,247</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 19,138,791</u>	<u>\$ 129,574</u>	<u>\$ (905,250)</u>	<u>\$ 18,363,115</u>

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

Governmental Activities:	
General Government	\$ 313,872
Public Safety	121,990
Public Works	661,564
Health and Welfare	28,774
Recreation and Culture	<u>261,426</u>
Total Depreciation – Governmental Activities	<u>\$ 1,387,626</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 99,998	\$ -	\$ -	\$ -	\$ 99,998
<i>Capital assets being depreciated:</i>					
Buildings	760,033	-	-	-	760,033
Vehicles	987,850	730,137	-	301,749	2,019,736
Equipment	462,246	-	-	89,173	551,419
Subtotal	2,210,129	730,137	-	390,922	3,331,188
<i>Less accumulated depreciation for:</i>					
Buildings	(308,236)	(38,001)	-	-	(346,237)
Vehicles	(545,590)	(112,942)	-	(301,749)	(960,281)
Equipment	(299,431)	(21,438)	-	(89,172)	(410,041)
Subtotal	(1,153,257)	(172,381)	-	(390,921)	(1,716,559)
Net Capital Assets Being Depreciated	1,056,872	557,756	-	1	1,614,629
Business-type Capital Assets, Net of Depreciation	\$ 1,156,870	\$ 557,756	\$ -	\$ 1	\$ 1,714,627

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

Business-Type Activities:	
UC Metropolitan Area Network	\$ 12,300
Bus System	160,081
Total Business-Type Activities	\$ 172,381

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land and Improvements	\$ 170,157	\$ -	\$ -	\$ 170,157
<i>Capital assets being depreciated:</i>				
Buildings	3,723,613	213,205	(1,982)	3,934,836
Road Equipment	5,389,619	58,424	(9,049)	5,438,994
Shop Equipment	106,741	805	(9,760)	97,786
Office Equipment	82,945	5,023	(45,314)	42,654
Engineer's Equipment	19,568	-	(2,593)	16,975
Yard and Storage Equipment	1,800	-	-	1,800
Depletable Assets	4,760	-	-	4,760
Traffic Signals	44,756	-	-	44,756
Infrastructure – Bridges	1,780,315	-	-	1,780,315
Infrastructure – Roads	<u>37,245,256</u>	<u>2,980,747</u>	<u>-</u>	<u>40,226,003</u>
Subtotal	<u>48,399,373</u>	<u>3,258,204</u>	<u>(68,698)</u>	<u>51,588,879</u>
<i>Less accumulated depreciation:</i>				
Building	(1,373,524)	(89,439)	1,982	(1,460,981)
Road Equipment	(4,902,794)	(191,180)	9,027	(5,084,947)
Shop Equipment	(95,435)	(2,786)	9,760	(88,461)
Office Equipment	(78,821)	(1,685)	45,314	(35,192)
Engineer's Equipment	(16,931)	(465)	2,593	(14,803)
Yard and Storage Equipment	(1,800)	-	-	(1,800)
Traffic Signals	(29,045)	(2,984)	-	(32,029)
Infrastructure – Bridges	(482,184)	(70,946)	-	(553,130)
Infrastructure – Roads	<u>(21,090,714)</u>	<u>(1,884,334)</u>	<u>-</u>	<u>(22,975,048)</u>
Subtotal	<u>(28,071,248)</u>	<u>(2,243,819)</u>	<u>68,676</u>	<u>(30,246,391)</u>
Net Capital Assets Being Depreciated	<u>20,328,125</u>	<u>1,014,385</u>	<u>(22)</u>	<u>21,342,488</u>
Total Net Capital Assets	<u>\$ 20,498,282</u>	<u>\$ 1,014,385</u>	<u>\$ (22)</u>	<u>\$ 21,512,645</u>

Depreciation expense was charged entirely to Public Works.

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of changes in the Otsego County Ambulance Corporation's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 725,000	\$ -	\$ -	\$ 725,000
Other Equipment	524,336	11,500	-	535,836
Vehicles	<u>1,132,347</u>	<u>628,500</u>	-	<u>1,760,847</u>
Subtotal	<u>2,381,683</u>	<u>640,000</u>	-	<u>3,021,683</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(435,000)	(29,000)	-	(464,000)
Other Equipment	(430,750)	(26,385)	-	(457,135)
Vehicles	<u>(927,399)</u>	<u>(116,929)</u>	-	<u>(1,044,328)</u>
Subtotal	<u>(1,793,149)</u>	<u>(172,314)</u>	-	<u>(1,965,463)</u>
Net Capital Assets Being Depreciated	<u>\$ 588,534</u>	<u>\$ 467,686</u>	<u>\$ -</u>	<u>\$ 1,056,220</u>

Depreciation expense was charged entirely to Health and Welfare.

A summary of changes in the Otsego County University Center's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 144,125	\$ -	\$ -	\$ 144,125
Leasehold Improvements	24,854	-	-	24,854
Furniture and Fixtures	257,017	115,463	(48,773)	323,707
Data Handling Equipment	<u>526,802</u>	-	-	<u>526,802</u>
Subtotal	<u>952,798</u>	<u>115,463</u>	<u>(48,773)</u>	<u>1,019,488</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(22,204)	(10,575)	-	(32,779)
Leasehold Improvements	(24,853)	-	-	(24,853)
Furniture and Fixtures	(194,804)	(25,978)	-	(199,143)
Data Handling Equipment	<u>(498,652)</u>	<u>(16,222)</u>	-	<u>(514,874)</u>
Subtotal	<u>(740,513)</u>	<u>(52,774)</u>	-	<u>(771,648)</u>
Net Capital Assets Being Depreciated	<u>\$ 212,285</u>	<u>\$ 62,689</u>	<u>\$ (48,773)</u>	<u>\$ 247,840</u>

Depreciation expense was charged entirely to Recreation and Culture.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Otsego, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in Interfund Receivables and Payables are as follows:

		DUE TO OTHER FUNDS	
		Nonmajor Governmental	
DUE FROM OTHER FUNDS	General Fund	\$	10,000
	Nonmajor Governmental		<u>32,504</u>
	Total	\$	<u>42,504</u>

		ADVANCES TO OTHER FUNDS	
		Public Improvement	
ADVANCES FROM OTHER FUNDS	Component Units		
	Ambulance	\$	<u>448,105</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

		TRANSFERS OUT				
		General Fund	Revenue Sharing Reserve	Nonmajor Governmental	Delinquent Tax	Total
TRANSFERS IN	General Fund	\$ -	\$ 470,782	\$ 17,300	\$ 100,000	\$ 588,082
	Nonmajor Governmental	742,326	-	21,100	-	763,426
	Nonmajor Enterprise	<u>6,000</u>	-	<u>11,000</u>	-	<u>17,000</u>
	Total	<u>\$ 748,326</u>	<u>\$ 470,782</u>	<u>\$ 49,400</u>	<u>\$ 100,000</u>	<u>\$ 1,368,508</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to 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.

NOTE 7 - LONG-TERM DEBT

Primary Government

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

The long-term debt and other long-term obligations of the County's governmental funds, and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>01/01/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/12</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Otsego County Building Authority Series 1991 Bonds, (Alpine Center Project) maturing serially through 2012 in annual amounts ranging from \$85,000 to \$95,000 and an interest rate of 7.0%.	\$ 95,000	\$ -	\$ 95,000	\$ -	\$ -
Otsego County Building Authority Series 1994-1 Bonds, maturing serially through 2014 in annual amounts ranging from \$45,000 to \$60,000 and at interest rates ranging from 6.1% to 6.3%.	165,000	-	50,000	115,000	50,000
Otsego County Building Authority Series 2010 Bonds, maturing serially through 2020 in annual amounts ranging from \$20,000 to \$240,000 and at interest rates from 2.0% to 4.0%.	1,840,000	-	170,000	1,670,000	190,000
Otsego County Brownfield Redevelopment Authority loan, maturing through 2024 with payments starting in 2014 ranging from \$47,472 to \$48,184 and interest at 1.5%.	480,926	-	-	480,926	-
Vested Employee Benefits Payable (1)	<u>105,113</u>	<u>-</u>	<u>21</u>	<u>105,092</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 2,686,039</u>	<u>\$ -</u>	<u>\$ 315,021</u>	<u>\$ 2,371,018</u>	<u>\$ 240,000</u>

(1) The change in vested employee benefits payable is a net decrease.

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 240,000	\$ 63,295
2014	293,184	54,205
2015	251,519	51,165
2016	247,142	44,318
2017	242,774	36,611
2018-2022	903,688	58,835
2023-2026	87,619	2,125
Total	<u>\$ 2,265,926</u>	<u>\$ 310,554</u>

Road Commission – Component Unit

The long-term debt of the Road Commission is summarized as follows:

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due</u>
	<u>01/01/12</u>			<u>12/31/12</u>	<u>Within</u>
					<u>One Year</u>
General Obligation:					
Bonds Payable	\$ 885,000	\$ -	\$ 30,000	\$ 855,000	\$ 30,000
Vested Employee Benefits (1)	71,804	6,628	-	78,432	-
Total Long-Term Debt	<u>\$ 956,804</u>	<u>\$ 6,628</u>	<u>\$ 30,000</u>	<u>\$ 933,432</u>	<u>\$ 30,000</u>

(1) The change in benefits is shown as a net increase.

The Otsego County Building Authority issued the 2011 Series Bonds on behalf of the Otsego County Road Commission for the purpose of constructing a new salt storage facility. The bonds were issued in denominations of \$5,000 totaling \$885,000. The bonds mature annually starting June 1, 2012 and each June 1st thereafter with the final maturities on June 1, 2031. The interest notes on the bonds range from 3.25% to 5.0%.

<u>Year End December 31</u>	<u>Amount</u>
2013	\$ 66,237
2014	65,263
2015	69,163
2016	67,938
2017	66,712
2018	65,488
2019	69,175
2020	67,775
2021	66,325
2022 - 2031	676,111
Total Payments	1,280,187
Less Interest and Fees	(425,187)
Net Balance Due	<u>\$ 855,000</u>

NOTE 8 - VESTED EMPLOYEE BENEFITS

Primary Government

Substantially all County employees are entitled to certain vacation and sick pay benefits that accrue and vest under various parameters. The amounts depend upon which labor contract the employee is subject to or upon which department or fund the employee is within. Accrued benefits for all governmental fund types are reported as long-term debt.

Vested Employee Benefits Payable – Bus System (Enterprise Fund)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is accrued over the course of the year.

Sick leave is earned at the beginning of the calendar year at a rate of 52 1/2 or 56 hours per full-time employee per year. Any unused sick leave is paid to the employee on the closest pay period to Christmas. There is no carry over of sick leave hours allowed.

Upon termination, an employee receives payment for the balance of any unused vacation leave which begins to accrue on the employee's anniversary date. Employees can carry over a maximum base vacation leave to the next year. Unused sick leave may be paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2012 will be paid from current financial resources and is not recorded as long-term liability.

Road Commission – Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2012 at current wage rates amounted to \$78,432 and are reflected in the Long-Term Debt. Sick leave is not vested and accordingly is not accrued.

NOTE 9 - OPERATING LEASES

The Commission on Aging entered into a sublease with Northwest Michigan Community Health Agency to rent the space commonly known as "Otsego Haus." The sublease terms beginning January 1, 2001 calls for monthly payments of \$1,620 or \$19,440 annually, and is renewable on a month to month basis.

The Commission on Aging leases office and activity space from Alpine Alten Zimmer. The future rent payments total \$27,472 per year, and the lease terms will remain constant through December 31, 2029. There are various conditions stated in the lease agreement that would allow the Commission to terminate the lease.

The Commission on Aging leases the Elkland Senior Center for both programmatic and social events. The rent payments total \$6,600 per year and is renewable annually.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The County participates in two retirement plans: a Defined Benefit Retirement Plan and a Defined Contribution/Defined Benefit Hybrid Retirement Plan. All newly hired non-union County employees are enrolled in the Hybrid Plan. The following is a summary of each plan.

Primary Government

DEFINED BENEFIT RETIREMENT PLAN

Description of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General Non-union, POAM, Teamsters Local #214, and 46th Circuit Court is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC-5), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors and the Sheriff-POLC Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC-5), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2011.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12 (a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. 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 the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy. The County is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2012 is as follows:

<u>Division Name</u>	<u>Monthly \$ Amount or Employer %</u>
General Non-Union	\$ 3,499
General Non-Union after January 1, 2009	6.79%
Library Non-Union	9.03%
General Local 214	11.11%
POAM	\$ 5,084
POAM after January 1, 2011	6.19%

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

<u>Division Name</u>	<u>Monthly \$ Amount or Employer %</u>
Elected/Appointed Supervisors	\$ 17,062
Elected/Appointed Supervisors after January 1, 2009	6.54%
Court Union	\$ 7,140
Court Union after June 1, 2011	5.04%
Sheriff Union	\$ 6,302
Sheriff Union New Hire	8.42%
Library Director	11.76%

Annual Pension Cost

During the calendar year ended December 31, 2012, the County's contributions totaled \$705,702 and the employee contributions totaled \$0; these contributions are made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2011, and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 28 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his project benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ 633,642	100%	0
2010	716,885	100%	0
2011	565,476	100%	0

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

DEFINED CONTRIBUTION/DEFINED BENEFIT HYBRID RETIREMENT PLAN

The County is an agent multiple-employer defined contribution/defined benefit hybrid pension plan with MERS. The system provides the following provisions: normal retirement, deferred retirement and service retirement allowance, disability retirement allowance, nonduty-connected death and to plan members and their beneficiaries.

The County contributes 1% of the employee's wages into the defined contribution portion of the hybrid plan; employees are required to contribute 1% but can elect to contribute up to 3% of their wages. The service requirement for the employer-paid portion of the defined contribution is according to the following vesting schedule:

Vesting – 3yr–25%; 4 yr – 50%; 5 yr – 75%; 6yr – 100%

The service requirement for the defined benefit portion of the hybrid plan is computed using the credited service at the time of termination of membership multiplied by the sum of 1.25% times FAC-3. The County is required to contribute at an actuarially determined rate.

Appt Spvrs after 1/1/09	5.94%
General Non Union after 1/1/09	6.80%

Road Commission – Component Unit

Description of Plan and Plan Assets

The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the payers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report available to the public that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 49817.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

All full-time Road Commission employees and Commissioners are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.0 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2010. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2011 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/11)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 7,019,018
Vested former members	81,891
Active members	<u>2,931,992</u>
Total actuarial accrued liability	10,032,901
Net position available for benefits, at actuarial value (Market value is \$5,291,044)	<u>6,380,020</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 3,652,881</u>

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions are actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2011 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 27 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 281,074	100%	0
2010	288,204	100%	0
2011	329,280	100%	0

The Road Commission was required to contribute \$319,412 and elected to pay an additional \$120,000 for the year ended December 31, 2012. Payments were based on contribution calculation made by MERS.

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1997, 2000, 2004, 2008, 2009 and 2010 valuations.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Primary Government

Plan Description. The County administers a single-employer healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees through the County’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the County and employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy. Contribution requirements also are negotiated between the County and employees. The County contributes 90% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2012, the County contributed \$215,219 to the plan. Total member contributions were \$28,302.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation. The County's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. 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 obligation to the Retiree Health Plan:

Annual required contribution	\$ 386,186
Interest on net OPEB obligation	42,346
Adjustment to annual required contribution	<u>58,510</u>
Annual OPEB cost (expense)	487,042
Contributions made	<u>(243,521)</u>
Increase in net OPEB obligation	243,521
Net OPEB obligation – beginning of year	<u>1,273,648</u>
Net OPEB obligation – end of year	<u>\$ 1,517,169</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010, 2011 and 2012 are as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 485,505	46%	\$ 1,058,657
2011	366,195	29%	1,273,648
2012	386,186	33%	1,517,169

Funded Status and Funding Progress. As of December 31, 2011, the actuarial accrued liability for benefits was \$3,742,809 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was 1,572,403, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 238%.

Actuarial valuation 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, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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 member 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.

In the December 31, 2011, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. Both rates included percent inflation assumptions of 3%. The actuarial value of assets (if any) was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

Component Unit – Road Commission

The Otsego County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the Road Commission's group health insurance plan, which covers both active and retired members. The following are the Governmental Accounting Standards Board Statement #45 required disclosures which have been implemented prospectively by the Road Commission.

- Employees hired prior to December 31, 2008, and retire with 20 years of employment and age 55 years, or greater, will receive health insurance comparable to that provided to the current employees until age 65 years and supplemental health insurance for the employee and spouse for their lifetimes.

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

Annual OPEB Cost and Net OPEB Obligation. The Road Commission's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Road Commission 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). The only current contributions made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Road Commission.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Progress. For the year ended December 31, 2012, the Road Commission has determined an estimated cost of providing post employment benefits through the alternative measurement method of calculation as of December 31, 2012. The calculation computes an annual required contribution, 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 30 years.

The Road Commission’s computed contribution and actual funding is summarized as follows:

Annual required contribution/Annual OPEB cost (ARC)	\$ 1,348,848
Interest on net OPEB obligation	<u>193,315</u>
Annual OPEB cost (expense)	1,542,163
Contributions made	<u>(387,209)</u>
Increase in net OPEB obligation	1,154,954
Net OPEB obligation – beginning of year	<u>4,832,866</u>
Net OPEB obligation – end of year	<u>\$ 5,987,820</u>

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010, 2011 and 2012 are as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 1,456,138	25.18%	\$ 3,771,592
2011	1,499,712	29.23%	4,832,866
2012	1,542,163	25.10%	5,987,820

The year ended December 31, 2008 was the first year that an actuarial valuation was done, so no information is available for years prior to that. Also, information related to funding progress with multi year trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits is not presented since there currently are no plan assets.

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 member 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 following simplifying assumptions were made:

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Assumptions About Employees and Members: Based on historical average retirement age of the covered group, active plan members were assumed to retire at various ages between 55 and 65 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published in the 1994 Group Annuity Mortality Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using specific age-based turnover data.

Assumptions About Healthcare Costs: The 2010 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums were based on the 2009 version of the National Health Expenditures (NHE) released in September 2010, Centers for Medicare & Medicaid Services, Office of the Actuary.

Other Assumptions and Methods: The inflation rate was assumed to be 4.0%. Based on the historical and expected returns of the Commission's investments, the investment rate of return was assumed to be 4%. The value of Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

NOTE 12 - DEFERRED COMPENSATION PLANS

Primary Government

Otsego County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit for the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (Nationwide Retirement Solutions) is an agent of the employer. The Administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County's financial statements.

Commission on Aging

The Otsego County Commission on Aging offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current earnings until the employee's termination, retirement, death, or unforeseeable emergency.

The Commission's liability to each participant is equal to the participant's deferred compensation adjusted by an amount equal to the investment performance in a related assets account. Investments are managed by a trustee, and investment decisions are made by individual employees. The Commission, through Otsego County, provides the duty of due care that would be required of an ordinary prudent investor.

NOTE 12 - DEFERRED COMPENSATION PLAN (Continued)

Component Unit – Road Commission

The Otsego County Road Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all Road Commission employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

In the past, the Road Commission was custodian of the assets of the plan and therefore recorded the plan's activity in a trust fund in accordance with Statement No. 2 of the Government Accounting Standards Board (GASB). With the implementation of GASB Statement No. 32 and the Road Commission transferring custodianship of the plan to an independent party, balances for the deferred compensation plan are no longer reported in the financial statements.

Component Unit – Sportsplex

The Otsego County Sportsplex offers its employees a Saving Incentive Match Plan for Employees (SIMPLE plan) Individual Retirement Account (IRA) in accordance with IRC Section 408(p). The plan, available to Sportsplex employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The employer matches employee contributions up to 3% of the employees elected salary contribution.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS

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. The 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 coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan, which 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.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund using premiums paid into it by other funds of the government. Such contributions that are 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, whereas resources in the member retention fund are used for loss payments and defense costs up to the members' self-insurance retention limits along with certain other member-specific costs.

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2012, the balance of the County's member retention was \$283,395.

<u>Coverage</u>	<u>Self-Insured Retention</u>
Liability	\$75,000
Vehicle Physical Damage \$1,000 Member Deductible	\$15,000 Per Vehicle \$30,000 Per Occurrence
Property and Crime \$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits	Commercial Insurance Provider

Workers' Compensation

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for workers' disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611, Paragraph (2) of the Workers' Disability Compensation Act of 1969, as amended.

At December 31, 2012 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

Bus System – The Bus System is included in the County's insurance policies.

Commission on Aging – The Commission on Aging has insurance coverage provided by independent insurance companies for property, general liability, fire, workers' compensation and employee bond coverage. The Commission on Aging liability is normally limited to the deductible.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

Component Unit – Road Commission

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool) established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Public Act 138 of 1982.

The Otsego County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation and is a member of the County Road Association Self-Insurance Fund.

At December 31, 2012, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

Component Unit – Ambulance Corporation

The Ambulance Corporation 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 Ambulance's general liability, property, and vehicle insurance is included in the County's plan. Additional vehicle insurance, health insurance, and workers' compensation is obtained through commercial insurance providers.

At December 31, 2012, there were no claims that exceeded insurance coverage. The Ambulance Corporation had no significant reduction in insurance coverage from previous years.

Component Unit – Sportsplex

The Sportsplex 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 Sportsplex's general liability and property insurance is included in the County's plan. Health insurance and workers' compensation is obtained through commercial insurance providers. At December 31, 2011, there were no claims that exceeded insurance coverage. The Sportsplex had no significant reduction in insurance coverage from previous years.

NOTE 14 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2012.

NOTE 15 - STATE EQUIPMENT PURCHASE ADVANCE

Component Unit – Road Commission

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 16 - CAPITAL LEASES

Component Unit – EMS Capital Leases – EMS leases defibrillators and a heart monitor under capital leases with yearly lease payments of \$31,578 and \$4,787, respectively including an interest rate of 14.88%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

2013	\$	21,369
2014		4,787
2015		4,787
2016		<u>3,989</u>
Total minimum lease payments		34,932
Less amount representing interest		<u>(4,525)</u>
Present value of minimum lease payments	\$	<u>30,407</u>

NOTE 17 - LITIGATION

The County is currently involved in two cases. The first one is Cavanaugh v Otsego County, et al. This case is involving the plaintiff suing for their termination as a result of participation in union related activities. The case is in the process of preparing discovery requests. The County is not in a position to estimate potential damages and the County believes that liability exposure is low. The second case is Hublick v Otsego County, et al. The plaintiff is suing for excessive use of force while they were taken into custody. Currently, it is the opinion of the County that exposure to damages and liability is low.

NOTE 18 - CHANGE IN PRESENTATION

During 2012, the entity implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that was included in Financial Accounting Standards Board and predecessor organization's pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. There were no significant changes to the financial statements as a result of adopting these Statements. The County did not adopt provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Effects on the financial statements as a result of adopting this standard are limited to financial presentation.

THIS PAGE LEFT BLANK INTENTIONALLY

Required Supplementary Information

Pension:

Primary Government

Three year trend information as of December 31st is as follows:

	2009	2010	2011
Actuarial Value of Assets	\$ 11,454,248	\$ 12,086,707	\$ 12,509,030
Actuarial Accrued Liability	15,660,103	16,602,287	17,429,652
Unfunded AAL	4,205,855	4,515,580	4,920,622
Funded Ratio	73%	73%	72%
Covered Payroll	4,426,638	4,384,058	4,400,424
UAAL as a Percentage of Covered Payroll	95%	103%	112%

Road Commission – Component Unit

	2009	2010	2011
Actuarial Value of Assets	\$ 6,541,763	\$ 6,419,431	\$ 6,380,020
Actuarial Accrued Liability	9,253,348	9,550,340	10,032,901
Unfunded AAL	2,711,585	3,130,909	3,652,881
Funded Ratio	71%	67%	64%
Covered Payroll	1,365,098	1,198,321	1,285,741
UAAL as a Percentage of Covered Payroll	199%	261%	284%

Health Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a) / c)
--------------------------	-------------------------------	---	-----------------------------	----------------------	---------------------	--

Primary Government

2008	\$	-	\$ 3,946,926	\$ 3,946,926	0.0%	Not Available	-
2011	\$	-	\$ 3,742,809	\$ 3,742,809	0.0%	Not Available	-

Road Commission – Component Unit

2009	\$	-	\$ 13,237,628	\$ 13,237,628	0.0%	\$ 1,538,759	860%
2010	\$	-	\$ 13,009,780	\$ 13,009,780	0.0%	\$ 1,397,173	931%
2012	\$	-	\$ 13,009,780	\$ 13,009,780	0.0%	\$ 1,434,739	906%

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 4,581,521	\$ 4,581,521	\$ 4,565,004	\$ (16,517)
Licenses and Permits	36,950	29,450	33,119	3,669
Federal Sources	387,003	368,357	362,370	(5,987)
State Sources	824,148	884,681	870,491	(14,190)
Local Contributions	16,800	20,300	17,343	(2,957)
Charges for Services	782,514	793,201	931,070	137,869
Fines & Forfeits	16,200	16,200	8,541	(7,659)
Interest & Rentals	100,000	100,000	100,150	150
Other Revenues	318,715	354,398	312,325	(42,073)
TOTAL REVENUES	7,063,851	7,148,108	7,200,413	52,305
EXPENDITURES:				
Legislative:				
Board of Commissioners	184,404	194,466	187,337	7,129
Judicial:				
Circuit Court	1,120,666	1,120,916	1,053,693	67,223
Lein Fees	9,800	9,800	7,000	2,800
Drug Court	108,363	110,561	61,227	49,334
RDSS Transport	20,000	20,000	9,512	10,488
District Court	68,827	68,827	67,266	1,561
Friend of the Court	404,234	404,234	379,490	24,744
Jury Commission	28,350	28,350	18,137	10,213
Probate Court	174,502	174,502	171,593	2,909
Probation/Parole	1,500	3,500	3,468	32
Family Counseling	4,000	4,000	1,000	3,000
Total Judicial	1,940,242	1,944,690	1,772,386	172,304
General Government:				
Administrative Services	191,823	191,823	191,823	-
Building & Grounds	336,132	336,132	334,477	1,655
Clerk and Register of Deeds	249,483	241,150	233,899	7,251
Audit Services	15,466	15,816	15,816	-
IT Department	57,851	57,851	56,671	1,180
Equalization	230,493	233,185	228,117	5,068
Treasurer	94,357	97,061	83,508	13,553
Cooperative Extension	54,923	55,068	55,066	2
Elections	20,752	20,752	16,320	4,432
Prosecuting Attorney	458,318	468,935	458,634	10,301
Legal Defense	-	42,260	42,259	1
Human Resources	52,351	52,351	52,351	-
Surveyor	200	200	200	-
Soil Conservation	11,500	4,000	4,000	-
Survey and Remonumentation	37,000	32,912	32,912	-
Total General Government	1,810,649	1,849,496	1,806,053	43,443
Public Safety:				
Sheriff	764,125	694,720	692,194	2,526
Civil Division	31,686	31,686	31,470	216
SANE	10,000	10,000	10,000	-
Justice Training	1,500	2,721	2,720	1
Marine Safety	9,503	9,533	8,463	1,070
Motorcycle Safety Education	51,100	67,355	61,828	5,527
Snowmobile	12,204	12,204	2,535	9,669
Secondary Road Patrol	53,915	63,251	63,219	32
ORV	11,703	13,610	7,533	6,077
Jail	915,174	961,816	958,617	3,199
Emergency Services	43,995	43,995	34,357	9,638
Total Public Safety	1,904,905	1,910,891	1,872,936	37,955

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Drains	6,000	6,000	4,250	1,750
Total Public Works	6,000	6,000	4,250	1,750
Health And Welfare:				
Communicable Diseases	500	500	500	-
Medical Examiner	58,020	111,185	111,099	86
District Health	170,682	170,682	170,682	-
Mental Health	94,003	94,003	70,502	23,501
Soldiers and Sailors Relief	-	6,900	3,936	2,964
Homeless Shelter	-	2,000	2,000	-
Veterans' Burial	11,600	11,600	7,664	3,936
Veterans' Affairs	39,886	39,886	38,553	1,333
Substance Abuse	96,381	122,781	122,781	-
Total Health and Welfare	471,072	559,537	527,717	31,820
Community and Economic Development:				
McCoy/Milbocker Road Project	-	50,000	-	50,000
Planning and Zoning	93,190	98,165	95,239	2,926
Total Community and Economic Development	93,190	148,165	95,239	52,926
Other Expenditures:				
Appropriations	4,500	12,314	9,568	2,746
Bonds and Insurance	280,882	277,132	270,083	7,049
Retiree Insurance	108,190	94,417	79,191	15,226
Other	150,907	99,654	48,092	51,562
Total Other Expenditures	544,479	483,517	406,934	76,583
TOTAL EXPENDITURES	6,954,941	7,096,762	6,672,852	423,910
EXCESS OF REVENUES OVER EXPENDITURES	108,910	51,346	527,561	476,215
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	482,165	696,980	588,082	(108,898)
Operating Transfers Out	(591,075)	(748,326)	(748,326)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	367,317	\$ 367,317
FUND BALANCES, JANUARY 1			2,689,035	
FUND BALANCES, DECEMBER 31			\$ 3,056,352	

Required Supplementary Information
 Budgetary Comparison Schedule
 Housing Commission Fund
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 342,950	\$ 342,950	\$ 29,888	\$ (313,062)
Local Sources	117,000	117,000	166,772	49,772
Interest and Rentals	300	300	116	(184)
Other Revenues	55,100	54,585	54,837	252
TOTAL REVENUES	515,350	514,835	251,613	(263,222)
EXPENDITURES:				
Community and Economic Development	521,292	521,249	270,590	250,659
TOTAL EXPENDITURES	521,292	521,249	270,590	250,659
EXCESS OF REVENUES (EXPENDITURES)	(5,942)	(6,414)	(18,977)	(12,563)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	104,352	104,824	-	(104,824)
Operating Transfers Out	(98,410)	(98,410)	-	98,410
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	(18,977)	\$ (18,977)
FUND BALANCE, JANUARY 1			120,793	
FUND BALANCE, DECEMBER 31			\$ 101,816	

Required Supplementary Information
 Budgetary Comparison Schedule
 Revenue Sharing Reserve Fund
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest & Rentals	\$ -	\$ 9,246	\$ 9,246	\$ -
 TOTAL REVENUES	 -	 9,246	 9,246	 -
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(469,865)	(470,782)	(470,782)	-
 EXCESS (DEFICIENCY) OF REVENUES OVER OTHER FINANCING USES	 \$ (469,865)	 \$ (461,536)	 (461,536)	 \$ -
 FUND BALANCE, JANUARY 1			 1,560,229	
 FUND BALANCE, DECEMBER 31			 \$ 1,098,693	

Required Supplementary Information
 Budgetary Comparison Schedule
 M-TEC
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 732,401	\$ 732,401	\$ 753,671	\$ 21,270
Other Revenues	5,000	5,000	3,920	(1,080)
TOTAL REVENUES	<u>737,401</u>	<u>737,401</u>	<u>757,591</u>	<u>20,190</u>
EXPENDITURES:				
Community/Economic Development	776,759	776,759	755,860	20,899
TOTAL EXPENDITURES	<u>776,759</u>	<u>776,759</u>	<u>755,860</u>	<u>20,899</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$ (39,358)</u>	<u>\$ (39,358)</u>	1,731	<u>\$ 41,089</u>
FUND BALANCE, JANUARY 1			<u>2,007</u>	
FUND BALANCE, DECEMBER 31			<u>\$ 3,738</u>	

Required Supplementary Information
 Budgetary Comparison Schedule
 Commission on Aging 9/30/2012
 For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,155,477	\$ 1,155,477	\$ 1,155,477	\$ -
Federal Sources	139,944	139,944	146,266	6,322
State Sources	77,788	77,788	68,765	(9,023)
Local Contributions	17,303	17,303	170,451	153,148
Charges for Services	115,042	115,042	66,968	(48,074)
Interest and Rentals	-	-	3,001	3,001
Other Revenues	-	-	44,182	44,182
TOTAL REVENUES	1,505,554	1,505,554	1,655,110	149,556
EXPENDITURES:				
Heath & Welfare	1,505,554	1,505,554	1,645,205	(139,651)
TOTAL EXPENDITURES	1,505,554	1,505,554	1,645,205	(139,651)
EXCESS OF REVENUES (EXPENDITURES)	\$ -	\$ -	9,905	\$ 9,905
FUND BALANCE, JANUARY 1			785,269	
FUND BALANCE, DECEMBER 31			\$ 795,174	

THIS PAGE LEFT BLANK INTENTIONALLY

Other Information

County of Otsego, Michigan

Combining Balance Sheet
General Fund
December 31, 2012

	General	Budget Stabilization	Legal Defense	Soldiers and Sailors Relief	Totals
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 951,035	\$ 1,265,628	\$ 86,245	\$ 17,942	\$ 2,320,850
Investments - Unrestricted	976,410	-	-	-	976,410
Receivables:					
Taxes	17,996	-	-	-	17,996
Accounts	19,734	-	-	-	19,734
Due from Other Funds	-	10,000	-	-	10,000
Due from Other Governmental Units	245,381	-	-	-	245,381
Inventories	14,600	-	-	-	14,600
Prepaid Expense	9,439	-	-	-	9,439
TOTAL ASSETS	\$ 2,234,595	\$ 1,275,628	\$ 86,245	\$ 17,942	\$ 3,614,410
LIABILITIES:					
Accounts Payable	\$ 136,550	-	\$ 9,060	-	\$ 145,610
Accrued Liabilities	80,868	-	-	-	80,868
Deferred Revenue	331,580	-	-	-	331,580
TOTAL LIABILITIES	548,998	-	9,060	-	558,058
FUND BALANCES:					
Nonspendable	24,039	-	-	-	24,039
Restricted for Grants	13,853	-	-	-	13,853
Assigned	55,913	1,275,628	77,185	17,942	1,426,668
Unassigned	1,591,792	-	-	-	1,591,792
TOTAL FUND BALANCES	1,685,597	1,275,628	77,185	17,942	3,056,352
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,234,595	\$ 1,275,628	\$ 86,245	\$ 17,942	\$ 3,614,410

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance - General Fund
For the Year Ended December 31, 2012**

	General	Budget Stabilization	Legal Defense	Soldiers and Sailors Relief	Totals
REVENUES:					
Taxes and Penalties	\$ 4,565,004	-	-	\$ -	\$ 4,565,004
Licenses and Permits	33,119	-	-	-	33,119
Federal Sources	362,370	-	-	-	362,370
State Sources	870,491	-	-	-	870,491
Local Sources	17,343	-	-	-	17,343
Charges for Services	931,070	-	-	-	931,070
Interest and Rentals	83,945	16,131	74	-	100,150
Fines and Forfeitures	8,541	-	-	-	8,541
Other Revenue	311,664	-	-	661	312,325
TOTAL REVENUES	7,183,547	16,131	74	661	7,200,413
EXPENDITURES:					
Legislative	187,337	-	-	-	187,337
Judicial	1,772,386	-	-	-	1,772,386
General Government	1,763,794	-	42,259	-	1,806,053
Public Safety	1,872,936	-	-	-	1,872,936
Public Works	4,250	-	-	-	4,250
Health and Welfare	523,781	-	-	3,936	527,717
Community/Economic Development	95,239	-	-	-	95,239
Other Expenditures	406,934	-	-	-	406,934
TOTAL EXPENDITURES	6,626,657	-	42,259	3,936	6,672,852
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	556,890	16,131	(42,185)	(3,275)	527,561
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	483,082	100,000	-	5,000	588,082
Operating Transfers Out	(748,326)	-	-	-	(748,326)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	291,646	116,131	(42,185)	1,725	367,317
FUND BALANCES, JANUARY 1	1,393,951	1,159,497	119,370	16,217	2,689,035
FUND BALANCES, DECEMBER 31	\$ 1,685,597	\$ 1,275,628	\$ 77,185	\$ 17,942	\$ 3,056,352

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012**

Special Revenue Funds

	Work Camp	Parks & Recreation	Green Nature Preserve	Friend of the Court	Animal Control	Recycling Fund	Gypsy Moth Control	Brownfield Redevelopment Authority
ASSETS:								
Cash and Equivalents	\$ 113,611	\$ 126,945	\$ 10,144	\$ 12,530	\$ 145,162	\$ 700	\$ 131,915	\$ 22,040
Investments	-	-	-	-	250,000	-	-	-
Taxes Receivable	-	216,794	-	-	346,257	287,526	-	-
Accounts Receivable	6,380	300	-	-	3,096	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	-	-	12,334	-	-	-	-
Prepaid Expense	-	-	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 119,991	\$ 344,039	\$ 10,144	\$ 24,864	\$ 744,515	\$ 288,226	\$ 131,915	\$ 22,040
LIABILITIES:								
Due to Other Funds	\$ 1,007	\$ 2,162	\$ 2,851	\$ 10,000	\$ 7,498	\$ -	\$ 2,422	\$ -
Accounts Payable	-	-	-	1,074	-	-	-	-
Due to Other Governmental Units	1,070	4,140	834	1,199	4,087	-	-	-
Accrued Liabilities	-	216,794	-	-	346,257	287,526	-	-
Deferred Revenues	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	2,077	223,096	3,685	12,273	357,842	287,526	2,422	-
FUND BALANCES:								
Nonspendable	-	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	-	-	-	-	-	-
Restricted for Library	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-
Assigned	117,914	120,943	6,459	12,591	386,673	700	129,493	22,040
TOTAL FUND BALANCES	117,914	120,943	6,459	12,591	386,673	700	129,493	22,040
TOTAL LIABILITIES AND FUND BALANCES	\$ 119,991	\$ 344,039	\$ 10,144	\$ 24,864	\$ 744,515	\$ 288,226	\$ 131,915	\$ 22,040

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012**

Special Revenue Funds

	Building Department	Register of Deeds Automation Fund	Library	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services
ASSETS:									
Cash and Equivalents	\$ 306,952	\$ 40,832	\$ 218,269	\$ 414,969	\$ -	\$ 38,974	\$ 16,217	\$ 7,924	\$ 7,926
Investments	-	-	368,573	-	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-	-
Accounts Receivable	405	95	148	91,997	-	-	-	-	-
Due from Other Funds	-	-	-	20,000	-	-	-	-	-
Due from Other Governmental Units	-	-	-	55,644	-	9,289	-	-	-
Prepaid Expense	-	-	-	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 307,357	\$ 40,927	\$ 586,990	\$ 562,610	\$ -	\$ 48,263	\$ 16,217	\$ 7,924	\$ 7,926
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ -
Accounts Payable	7,304	2,051	39,756	45,507	-	28,263	-	254	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
Accrued Liabilities	963	-	-	12,371	-	-	-	-	-
Deferred Revenues	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	8,267	2,051	39,756	57,878	-	48,263	-	254	-
FUND BALANCES:									
Nondistributable	-	-	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	-	-	-	-	-	-	-
Restricted for Library	-	-	547,234	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	299,090	38,876	-	504,732	-	-	16,217	7,670	7,926
TOTAL FUND BALANCES	299,090	38,876	547,234	504,732	-	-	16,217	7,670	7,926
TOTAL LIABILITIES AND FUND BALANCES	\$ 307,357	\$ 40,927	\$ 586,990	\$ 562,610	\$ -	\$ 48,263	\$ 16,217	\$ 7,924	\$ 7,926

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012**

	Special Revenue Funds							Debt		Capital	
	Child Care Probate	Veteran's Trust	Airport	Airport Special Events	Airport Planning Grant	Equipment Revolving	Bradford Lake Dam	Jail	Debt Service	Service Fund	Project Fund
ASSETS:											
Cash and Equivalents	\$ 382,037	\$ 598	\$ 57,860	\$ 11,681	\$ 46,644	\$ 39,547	\$ 20,068	\$ 137,154	\$ 539,200	\$ 300,000	
Investments	-	-	-	-	-	-	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	2,000	-	48,968	-	-	70	-	1,677	12,500	-	12,500
Due from Other Funds	-	-	-	-	-	504	-	-	-	-	-
Due from Other Governmental Units	36,631	-	-	-	-	5,000	-	-	-	-	-
Prepaid Expense	-	-	-	3,659	-	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-	-	-	448,105
Inventory	-	-	12,455	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 420,668	\$ 598	\$ 119,283	\$ 15,340	\$ 46,644	\$ 45,121	\$ 20,068	\$ 138,831	\$ 1,299,805	\$ 1,299,805	
LIABILITIES:											
Due to Other Funds	\$ -	\$ -	\$ 504	\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	45,505	-	58,014	1,158	-	8,618	-	-	-	-	-
Due to Other Governmental Units	612	-	-	-	-	-	-	-	-	-	-
Accrued Liabilities	2,345	-	-	-	-	-	-	-	-	-	-
Deferred Revenues	-	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	48,462	-	58,518	1,158	12,000	8,618	-	-	-	-	-
FUND BALANCES:											
Nonspendable	-	-	12,455	3,659	-	-	-	-	-	-	448,105
Restricted for Debt Service	-	-	-	-	-	-	-	138,831	-	-	-
Restricted for Library	-	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-	851,700
Assigned	372,206	598	48,310	10,523	34,644	36,503	20,068	-	-	-	-
TOTAL FUND BALANCES	372,206	598	60,765	14,182	34,644	36,503	20,068	138,831	1,299,805	1,299,805	
TOTAL LIABILITIES AND FUND BALANCES	\$ 420,668	\$ 598	\$ 119,283	\$ 15,340	\$ 46,644	\$ 45,121	\$ 20,068	\$ 138,831	\$ 1,299,805	\$ 1,299,805	

	Capital Project Funds							Total
	Animal Control Shelter Building	Library Building	Court Restoration Building	Airport Construction	Green Capital Projects II	Green Nature Preserve Capital Projects	Capital Projects	
ASSETS:								
Cash and Equivalents	\$ 19,809	\$ 409,864	\$ 56,266	\$ 39,718	\$ 6,460	\$ 1,198	\$ 163,143	\$ 3,554,507
Investments	-	121,648	-	-	-	-	-	1,040,221
Taxes Receivable	-	-	-	-	-	-	-	850,577
Accounts Receivable	-	-	-	-	-	-	-	167,636
Due from Other Funds	-	-	-	-	-	-	12,000	32,504
Due from Other Governmental Units	-	-	-	-	-	-	-	98,898
Prepaid Expense	-	-	-	-	-	-	-	3,659
Long-Term Advances to Component Units	-	-	-	-	-	-	-	448,105
Inventory	-	-	-	-	-	-	-	12,455
TOTAL ASSETS	\$ 19,809	\$ 531,512	\$ 56,266	\$ 39,718	\$ 6,460	\$ 1,198	\$ 175,143	\$ 6,208,562
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,504
Accounts Payable	-	-	12,314	2,600	334	982	-	269,674
Due to Other Governmental Units	-	-	-	-	-	-	-	612
Accrued Liabilities	-	-	-	-	-	-	-	27,009
Deferred Revenues	-	-	-	-	-	-	-	850,577
TOTAL LIABILITIES	-	-	12,314	2,600	334	982	-	1,190,376
FUND BALANCES:								
Nonspendable	-	-	-	-	-	-	-	464,219
Restricted for Debt Service	-	-	-	-	-	-	112,610	251,441
Restricted for Library	-	-	-	-	-	-	-	547,234
Committed	19,809	531,512	43,952	37,118	6,126	216	62,533	1,552,966
Assigned	-	-	-	-	-	-	-	2,202,326
TOTAL FUND BALANCES	19,809	531,512	43,952	37,118	6,126	216	175,143	5,018,186
TOTAL LIABILITIES AND FUND BALANCES	\$ 19,809	\$ 531,512	\$ 56,266	\$ 39,718	\$ 6,460	\$ 1,198	\$ 175,143	\$ 6,208,562

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2012

		Special Revenue Funds									
		Work Camp	Parks & Recreation	Groen Nature Preserve	Friend of the Court	Animal Control	Animal Control Funds	Recycling Fund	Gypsy Moth Control	Brownfield Redevelopment Authority	
REVENUES:											
Taxes and Penalties			\$ 217,224	\$ -	\$ -	\$ 348,323	\$ -	\$ -	\$ -	\$ 22,040	
Federal Sources			-	-	40,897	-	-	-	-	-	
State Sources	6,800		-	-	4,337	-	-	-	-	-	
Local Sources			-	-	-	-	-	-	-	-	
Charges for Services	71,868		144,610	-	10,303	36,314	-	-	-	-	
Fines & Forfeits	15		-	-	-	-	-	-	-	-	
Interest & Rentals			515	-	-	685	-	-	93	-	
Other Revenues			17,819	-	90	12,474	-	-	-	-	
TOTAL REVENUES		78,683	380,168	-	55,627	397,796	-	-	93	22,040	
EXPENDITURES:											
Judicial											
General Government					67,000						
Public Safety	110,621					292,280	11	8,800			
Public Works											
Health And Welfare				18,541					9,121		
Recreation and Culture			448,241								
Capital Outlay						70,291					
Debt Service											
TOTAL EXPENDITURES		110,621	448,241	18,541	67,000	362,571	11	8,800	9,121	-	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(31,938)	(68,073)	(18,541)	(11,373)	35,225	(11)	(8,800)	(9,028)	22,040	
OTHER FINANCING SOURCES (USES):											
Operating Transfers In	61,365							9,500			
Operating Transfers Out				(25,000)							
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES		29,427	(68,073)	(43,541)	(11,373)	55,225	(11)	700	(9,028)	22,040	
FUND BALANCES, JANUARY 1	88,487	189,016	50,000	23,964	8,161	351,448	-	138,521	-	-	
FUND BALANCES, DECEMBER 31	\$ 117,914	\$ 120,943	\$ 6,459	\$ 12,591	\$ 8,150	\$ 386,673	\$ 700	\$ 129,493	\$ 22,040	\$ 22,040	

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2012

Special Revenue Funds												
	Building Department	Register of Deeds Automation Fund	Library	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services			
REVENUES:												
Taxes and Penalties			\$ 464,963									
Federal Sources			6,400		4,074	47,651						
State Sources			12,215									
Local Sources			22,959									
Charges for Services	379,657	42,382	1,380	648,219			4,773	3,500				
Fines & Forfeits			165,094									
Interest & Rentals			7,676	440	28							
Other Revenues	492		18,642	638		29,059						6,486
TOTAL REVENUES	380,149	42,382	699,329	649,297	4,102	76,710	4,773	3,500				6,486
EXPENDITURES:												
Judicial												
General Government		33,701				76,710		1,496				
Public Safety	317,446			648,404	4,272		3,291					
Public Works												
Health And Welfare												5,452
Recreation and Culture			668,446									
Capital Outlay	7,783			3,132								
Debt Service												
TOTAL EXPENDITURES	325,229	33,701	668,446	651,536	4,272	76,710	3,291	1,496				5,452
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	54,920	8,681	30,883	(2,239)	(170)		1,482	2,004				1,034
OTHER FINANCING SOURCES (USES):												
Operating Transfers In												
Operating Transfers Out	(6,000)			(17,300)								
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	48,920	8,681	30,883	(19,539)	(170)		1,482	2,004				1,034
FUND BALANCES, JANUARY 1	250,170	30,195	516,351	524,271	170		14,735	5,666				6,892
FUND BALANCES, DECEMBER 31	\$ 299,090	\$ 38,876	\$ 547,234	\$ 504,732	\$ -	\$ -	\$ 16,217	\$ 7,670	\$ -	\$ -	\$ -	\$ 7,926

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2012

	Special Revenue Funds							Debt Service Fund	Capital Project Fund
	Child Care Probate	Veteran's Trust	Airport	Airport Special Events	Airport Planning Grant	Equipment Revolving	Bradford Lake Dam		
REVENUES:									
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	10,834	-	249,066	-	52,694	-	-	-	-
State Sources	250,224	3,080	6,554	-	19,000	5,000	-	-	-
Local Sources	-	-	6,555	-	-	-	-	-	-
Charges for Services	-	-	881,532	31,950	-	-	-	6,708	-
Fines & Forfeits	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	80,522	-	-	731	-	122,594	38,712
Other Revenues	32,415	-	7,836	34,269	-	-	-	304,396	5,772
TOTAL REVENUES	293,473	3,080	1,232,065	66,219	71,694	5,731	-	433,698	44,484
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-
Public Works	-	-	1,133,584	57,369	45,050	-	-	-	-
Health And Welfare	456,352	4,454	-	-	-	-	-	-	-
Recreation and Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	262,175	-	-	66,243	-	-	-
Debt Service	-	-	-	-	-	-	-	463,779	-
TOTAL EXPENDITURES	456,352	4,454	1,395,759	57,369	45,050	66,243	-	463,779	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(162,879)	(1,374)	(163,694)	8,850	26,644	(60,512)	-	(30,081)	44,484
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	225,000	-	197,558	-	-	94,000	-	66,803	-
Operating Transfers Out	-	-	-	-	-	(1,100)	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	62,121	(1,374)	33,864	8,850	26,644	32,388	-	36,722	44,484
FUND BALANCES, JANUARY 1	310,085	1,972	26,901	5,332	8,000	4,115	20,068	102,109	1,255,321
FUND BALANCES, DECEMBER 31	\$ 372,206	\$ 598	\$ 60,765	\$ 14,182	\$ 34,644	\$ 36,503	\$ 20,068	\$ 138,831	\$ 1,299,805

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2012

	Capital Project Funds									
	Animal Control Shelter Building	Library Building	Court Restoration Building	Airport Construction	Green Capital Projects II	Green Nature Preserve Capital Projects	Capital Project	Total		
REVENUES:										
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,052,550
Federal Sources	-	-	-	-	-	-	-	-	-	411,616
State Sources	-	-	-	-	-	-	-	-	-	288,210
Local Sources	-	-	43,226	-	-	-	-	-	-	48,514
Charges for Services	-	-	-	-	-	-	-	-	-	2,306,422
Fines & Forfeits	-	-	-	-	-	-	-	-	-	165,109
Interest & Rentals	135	14,257	-	-	-	-	-	-	120	266,508
Other Revenues	437	-	-	75,000	41,400	96,849	2,679	-	-	686,753
TOTAL REVENUES	572	14,257	43,226	75,000	41,400	96,849	2,799	-	-	5,225,682
EXPENDITURES:										
Judicial	-	-	-	-	-	-	-	-	-	67,000
General Government	-	-	-	-	-	-	-	-	-	120,707
Public Safety	-	-	-	-	-	-	-	-	-	1,376,325
Public Works	-	-	-	-	-	-	-	-	-	1,236,003
Health And Welfare	-	-	-	-	-	-	-	-	-	493,920
Recreation and Culture	-	-	-	-	4,752	-	-	-	-	1,121,439
Capital Outlay	137,351	-	21,613	81,566	55,522	96,633	74,988	-	-	877,297
Debt Service	-	-	-	-	-	-	-	-	-	463,779
TOTAL EXPENDITURES	137,351	-	21,613	81,566	60,274	96,633	74,988	-	-	5,756,470
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(136,779)	14,257	21,613	(6,566)	(18,874)	216	(72,189)	-	-	(530,788)
OTHER FINANCING SOURCES (USES):										
Operating Transfers In	-	-	-	22,000	25,000	-	62,200	-	-	763,426
Operating Transfers Out	-	-	-	-	-	-	-	-	-	(49,400)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(136,779)	14,257	21,613	15,434	6,126	216	(9,989)	-	-	183,238
FUND BALANCES, JANUARY 1	156,588	517,255	22,339	21,684	-	-	185,132	-	-	4,834,948
FUND BALANCES, DECEMBER 31	\$ 19,809	\$ 531,512	\$ 43,952	\$ 37,118	\$ 6,126	\$ 216	\$ 175,143	\$ -	\$ -	\$ 5,018,186

Combining Statement of Net Position
Internal Service Funds
December 31, 2012

	Building and Grounds	Administrative Services	Health Care	Total
ASSETS:				
Current Assets:				
Cash and Equivalents	\$ 268,224	\$ 52,580	\$ 2,000	\$ 322,804
Investments	-	-	465,573	465,573
Accounts Receivable	2,897	560	933	4,390
Due from Governmental Units	700	-	-	700
Prepaid Expense	-	-	50,651	50,651
Inventory	-	325	-	325
TOTAL ASSETS	\$ 271,821	\$ 53,465	\$ 519,157	\$ 844,443
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 15,374	\$ 1,021	\$ 26,307	\$ 42,702
Accrued Liabilities	-	2,992	-	2,992
TOTAL LIABILITIES	15,374	4,013	26,307	45,694
NET POSITION:				
Unrestricted	256,447	49,452	492,850	798,749
TOTAL NET POSITION	256,447	49,452	492,850	798,749
TOTAL LIABILITIES AND NET POSITION	\$ 271,821	\$ 53,465	\$ 519,157	\$ 844,443

County of Otsego, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Position - Internal Service Funds For the Year Ended December 31, 2012

	Building and Grounds	Administrative Services	Health Care	Total
OPERATING REVENUES:				
Charges for Services	\$ 411,311	\$ 378,850	\$ 929,516	\$ 1,719,677
Other	204	4,452	-	4,656
TOTAL OPERATING REVENUES	411,515	383,302	929,516	1,724,333
OPERATING EXPENSES:				
Salaries, Wages, and Fringe Benefits	-	383,252	-	383,252
Contractual Services	231,599	1,318	-	232,917
Materials and Supplies	155	3,131	-	3,286
Equipment Repair and Maintenance	45,899	142	-	46,041
Utilities	182,001	1,700	-	183,701
Other	22,054	7,746	939,885	969,685
TOTAL OPERATING EXPENSES	481,708	397,289	939,885	1,818,882
OPERATING INCOME (LOSS)	(70,193)	(13,987)	(10,369)	(94,549)
Non Operating Revenues (Expenses):				
Interest Earnings	-	-	597	597
Changes in Net Position	(70,193)	(13,987)	(9,772)	(93,952)
Net Position - January 1, 2012	326,640	63,439	502,622	892,701
Net Position - December 31, 2012	\$ 256,447	\$ 49,452	\$ 492,850	\$ 798,749

**Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2012**

	Building and Grounds	Administrative Services	Health Care	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 411,564	\$ 382,742	\$ 932,054	\$ 1,726,360
Payments to Suppliers	(489,849)	(13,554)	(923,417)	(1,426,820)
Payments to Employees for Services and Benefits	-	(382,906)	-	(382,906)
Net Cash Provided (Used) by Operating Activities	<u>(78,285)</u>	<u>(13,718)</u>	<u>8,637</u>	<u>(83,366)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	-	-	597	597
Net Sale or (Purchase) of Investments	-	-	(9,234)	(9,234)
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>-</u>	<u>(8,637)</u>	<u>(8,637)</u>
Net Increase (Decrease) in Cash and Equivalents	(78,285)	(13,718)	-	(92,003)
Balances - Beginning of the Year	<u>346,509</u>	<u>66,298</u>	<u>2,000</u>	<u>414,807</u>
Balances - End of the Year	<u>\$ 268,224</u>	<u>\$ 52,580</u>	<u>\$ 2,000</u>	<u>\$ 322,804</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (70,193)	\$ (13,987)	\$ (10,369)	\$ (94,549)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Accounts Receivable	14	(560)	1,719	1,173
Due from Governmental Units	35	-	-	35
Prepaid Expense	-	-	819	819
Accounts Payable	(8,141)	483	16,468	8,810
Accrued Liabilities	-	346	-	346
Net Cash Provided (Used) by Operating Activities	<u>\$ (78,285)</u>	<u>\$ (13,718)</u>	<u>\$ 8,637</u>	<u>\$ (83,366)</u>

**Combining Statement of Net Position
Nonmajor Enterprise Funds
December 31, 2012**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
ASSETS:						
Current Assets:						
Cash and Equivalents	\$ 393,470	\$ 52,848	\$ 27,183	\$ 4,166	\$ 43,099	\$ 520,766
Investments	298,882	-	-	-	-	298,882
Accounts Receivable	-	3,000	21,968	-	-	24,968
Total Current Assets	692,352	55,848	49,151	4,166	43,099	844,616
Noncurrent Assets:						
Capital Assets (Net of Accumulated Depreciation)	-	-	135,286	-	-	135,286
TOTAL ASSETS	\$ 692,352	\$ 55,848	\$ 184,437	\$ 4,166	\$ 43,099	\$ 979,902
LIABILITIES:						
Current Liabilities:						
Accounts Payable	\$ 1,826	\$ 1,200	\$ 1,235	\$ 175	\$ -	\$ 4,436
Accrued Liabilities	1,663	-	-	-	-	1,663
TOTAL LIABILITIES	3,489	1,200	1,235	175	-	6,099
NET POSITION:						
Net Investment in Capital Assets Unrestricted	- 688,863	- 54,648	135,286 47,916	- 3,991	- 43,099	135,286 838,517
TOTAL NET POSITION	\$ 688,863	\$ 54,648	\$ 183,202	\$ 3,991	\$ 43,099	\$ 973,803

County of Otsego, Michigan

**Combining Statement of Revenues, Expenses, and Changes
in Net Position - Nonmajor Enterprise Funds
For the Year Ended December 31, 2012**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
OPERATING REVENUES:						
Local Sources	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Charges for Services	135,772	5,621	54,815	19,118	1,131	216,457
TOTAL OPERATING REVENUES	135,772	10,621	54,815	19,118	1,131	221,457
OPERATING EXPENSES:						
Salaries, Wages, and Fringe Benefits	44,169	-	3,200	-	-	47,369
Contractual Services	-	21,962	3,701	1,353	325	27,341
Materials and Supplies	2,291	141	13,787	16,151	1,075	33,445
Depreciation	-	-	12,300	-	-	12,300
Other Expenses	1,934	850	-	1,095	1,608	5,487
TOTAL OPERATING EXPENSES	48,394	22,953	32,988	18,599	3,008	125,942
OPERATING INCOME (LOSS)	87,378	(12,332)	21,827	519	(1,877)	95,515
NON OPERATING REVENUES (EXPENSES):						
Interest Earnings	11,138	-	-	-	5,073	16,211
INCOME (LOSS) BEFORE TRANSFERS	98,516	(12,332)	21,827	519	3,196	111,726
Operating Transfers In	-	17,000	-	-	-	17,000
Changes in Net Position	98,516	4,668	21,827	519	3,196	128,726
Net Position - January 1, 2012	590,347	49,980	161,375	3,472	39,903	845,077
Net Position - December 31, 2012	\$ 688,863	\$ 54,648	\$ 183,202	\$ 3,991	\$ 43,099	\$ 973,803

County of Otsego, Michigan

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2012**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from Customers	\$ 135,772	\$ 7,621	\$ 38,868	\$ 19,118	\$ (8,987)	\$ 192,392
Payments to Suppliers	(44,905)	(23,111)	(24,992)	(18,475)	(3,008)	(114,491)
Net Cash Provided (Used) by Operating Activities	90,867	(15,490)	13,876	643	(11,995)	77,901
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:						
Operating Transfers In	-	17,000	-	-	-	17,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	17,000	-	-	-	17,000
CASH FLOWS FROM INVESTING ACTIVITIES:						
Net Sale or (Purchase) of Investments	87,373	-	-	-	-	87,373
Interest Earnings	11,138	-	-	-	5,073	16,211
Net Cash Provided (Used) by Investing Activities	98,511	-	-	-	5,073	103,584
Net Increase (Decrease) in Cash and Equivalents	189,378	1,510	13,876	643	(6,922)	198,485
Balances - Beginning of the Year	204,092	51,338	13,307	3,523	50,021	322,281
Balances - End of the Year	\$ 393,470	\$ 52,848	\$ 27,183	\$ 4,166	\$ 43,099	\$ 520,766
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	\$ 87,378	\$ (12,332)	\$ 21,827	\$ 519	\$ (1,877)	\$ 95,515
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	-	-	12,300	-	-	12,300
Change in Assets and Liabilities:						
Accounts Receivable	-	(3,000)	(15,947)	-	-	(18,947)
Accrued Liabilities	1,663	-	-	-	(10,118)	(8,455)
Accounts Payable	1,826	(158)	(4,304)	124	-	(2,512)
Net Cash Provided (Used) by Operating Activities	\$ 90,867	\$ (15,490)	\$ 13,876	\$ 643	\$ (11,995)	\$ 77,901

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA
REBECCA A. REMONDINI, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County of Otsego's basic financial statements and have issued our report thereon dated May 21, 2013. Our report includes a reference to other auditors who audited the financial statements of the Otsego County Road Commission and Commission on Aging, as described in our report on the County of Otsego'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 of Otsego'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Otsego's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Otsego's internal control.

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

Members of the Board
County of Otsego, Michigan

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, as item 12-2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Otsego's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2.

County of Otsego, Michigan's Response to Finding

The County of Otsego, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County of Otsego, Michigan's responses was 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson Tackman & Co P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

May 21, 2013



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA
REBECCA A. REMONDINI, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

Report on Compliance for Each Major Federal Program

We have audited the County of Otsego's, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Otsego's major federal programs for the year ended December 31, 2012. The County of Otsego's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the County of Otsego complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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

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

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

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

Anderson Tackman & Co PLC

Anderson, Tackman and Company, PLC
Certified Public Accountants
Kincheloe, Michigan

May 21, 2013

County of Otsego, Michigan

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through programs from Northeast Michigan Community Service Agency, Inc.			
Nutrition Services Incentive-Title III C1	10.570	N/A	\$ 13,518
Nutrition Services Incentive-Title III C2	10.570	N/A	<u>30,316</u>
Subtotal - NEMCSA			<u>43,834</u>
Pass-through from Michigan Department of Natural Resources			
Schools and Roads Grant	10.665	N/A	<u>2</u>
Subtotal - MDNR			<u>2</u>
Total U.S. Department of Agriculture			<u>43,836</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass-through programs from the Michigan State Housing Development Authority:			
Aerospace Diversification Planning Project	14.228	MSC-21 1003-EDPA	52,694
CDBG	14.228	MSC-2011-0812-HO	<u>29,888</u>
Total U.S. Department of Housing and Urban Development			<u>82,582</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through programs from the Michigan Department of Human Services:			
Juvenile Accountability Incentive Block Grant - 02/01/11 to 01/31/12	16.523	JABGN-11-20001	984
Juvenile Accountability Incentive Block Grant - 02/01/12 to 01/31/13	16.523	JABGN-12-20001	<u>9,850</u>
Total U.S. Department of Justice			<u>10,834</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from the Michigan Department of Transportation:			
Airport Project - State Administered	20.205	B-26-0036-1708	113,352
Airport Project - State Administered	20.205	F-26-0036-2111	135,714
Capital Assistance	20.500	MI-04-0042-01	291,401
Capital Assistance	20.500	MI-04-0066	292,639
Operating Grant - Section 5311	20.509	MI-18-X050	<u>305,431</u>
Subtotal - MDOT			<u>1,138,537</u>
Pass-through programs from the Michigan Department of State Police:			
HMEP	20.703	N/A	1,000
Motorcycle Safety Bike Purchase	20.612	N/A	<u>20,255</u>
Subtotal - Michigan Department of State Police			<u>21,255</u>
Total U.S. Department of Transportation			<u>1,159,792</u>
NATIONAL ENDOWMENT FOR THE ARTS			
Pass-through programs from Arts Midwest			
The Big Read	45.024	156888	<u>6,400</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs from the Michigan Department of Human Services:			
Incentive Reimbursement	93.563	N/A	51,347
PA CRP Title IV-D - 10/01/09 to 9/30/12	93.563	CSPA-10-69002	26,798
PA CRP Title IV-D - 10/01/12 to 9/30/15	93.563	CSPA-13-69002	7,979
FOC CRP Title IV-D - 10/01/09 to 9/30/12	93.563	CSFOC-10-69001	200,773
FOC CRP Title IV-D - 10/01/12 to 9/30/15	93.563	CSFOC13-69001	71,876
PROFC Title IV-E	93.658	PRO-FC-11-69001	<u>3,939</u>
Subtotal - MDHS			<u>362,712</u>
Pass-through programs from the Michigan Office of Services to the Aging:			
Pass-through Northeast Michigan Community Services Agency, Inc.,			
Special Programs for the Aging:			
Title III Part B - Supportive Services and Senior Centers			
Respite	93.044	N/A	2,000
Homemaker	93.044	N/A	12,431
Personal Care	93.044	N/A	10,194
Title III Part C - Nutrition Services			
Congregate Meals	93.045	N/A	36,010
Home Delivered Meals	93.045	N/A	<u>19,566</u>

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: (Continued)			
Title III Part E - National Family Caregiver Support			
Support Group	93.052	N/A	1,045
Respite (Up & Go)	93.052	N/A	750
Respite	93.052	N/A	3,140
Resource Room	93.052	N/A	2,000
Grandparents Kinship	93.052	N/A	1,000
NFCSP Parkinson Group	93.052	N/A	1,046
NFCSP Kinship (Grandparents)	93.052	N/A	1,200
Elder Abuse	93.052	N/A	750
Savvy Caregiver - Support Group	93.052	N/A	6,322
Other Programs	93.052	N/A	4,978
Subtotal - NEMCSA, Inc.			<u>102,432</u>
Total U.S. Department of Health and Human Services			<u>465,144</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through programs from the Michigan Department of Natural Resources:			
Marine Safety Grant	97.012	N/A	4,580
Subtotal - MDNR			<u>4,580</u>
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
Emergency Management Performance Grants 10/01/11-09/30/12	97.042	N/A	14,718
Pre-Disaster Mitigation Grant	97.047	PDMC-PL-05-MI-2011-009	47,651
2008 Homeland Security Grant	97.067	N/A	4,074
2010 Homeland Security Grant	97.067	2010-SS-T0-0009	3,780
Subtotal - MDSP, EMD			<u>70,223</u>
Total U.S. Department of Homeland Security			<u>74,803</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,843,391</u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Otsego, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Transportation which provided the greatest amount of indirect federal funding to the County during 2012.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement:	
Government Funds	\$ 950,140
Enterprise Funds:	
Operating	305,431
Capital	584,040
Component Unit:	
Ambulance	<u>3,780</u>
Total Federal Expenditures	<u>\$ 1,843,391</u>

NOTE D - AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2012, the Federal aid received and expended by the Airport was \$249,066 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the airports as they are included in MDOT's single audit.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

<u>CFDA NUMBERS</u>	<u>Name of Federal Program or Cluster</u>
93.563	FOC/PA CRP Title IV-D
20.500	Capital Assistance
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Compliance and Other Matters

Noncompliance with State Statutes

Delinquent In Distributing Tax Revenues

Finding 12-1

Criteria: The Michigan Department of Treasury regulations require the tax disbursements be performed within 10 days.

Condition: The disbursement of current tax collections to the respective school systems was not conducted in a timely manner as of December 31, 2012. The disbursement was not performed within the time limit specified by regulation.

Effect: Tax collections were not remitted in a timely manner to school systems.

Cause: Unknown.

Recommendation: To ensure timeliness of tax disbursements, disbursements should be performed within 10 business days in accordance with Department of Treasury regulations.

- *Contact Person(s) Responsible for Correction:*
Diann Axford, Treasurer
- *Corrective Action Planned:*
The Board has implemented compensating controls to reduce the risks discussed above.
- *Anticipated Completion Date:*
Immediately.

Section II – Financial Statement Findings (Continued)

Compliance and Other Matters

Noncompliance with State Statutes

Excess Expenditures Over Appropriations

Finding 12-2

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, as amended.

During the year ended December 31, 2012, the County incurred expenditures in a certain budgetary fund, which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Commission on Aging: Health and Welfare	\$ 1,505,554	\$ 1,645,205	\$ (139,651)

Condition: Our examination of procedures used by the County to adopt and maintain operating budgets for the County’s budgetary fund revealed the following instance of noncompliance with the provisions of Public Act 621 of 1978, Section 18(1), as amended, the Uniform Budgeting and Accounting Act.

The County’s 2012 General Appropriations Act (budget) provided for expenditures of the Commission on Aging Fund to be controlled at the activity level. During the fiscal year ended December 31, 2012, expenditures were incurred in excess of amounts appropriated in the amended budgets for the Commission on Aging Fund on page 66 of the financial statements.

Effect: The County has not complied with various State Statutes.

Cause: Failure to amend the budget for the Commission on Aging Fund during the year.

Recommendation: We recommend that the County and personnel responsible for administering the activities of the various funds of the County, develop budgetary control procedures for the Commission on Aging Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

- *Contact Person(s) Responsible for Correction:*
Diann Axford, Treasurer
- *Corrective Action Planned:*
Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.
- *Anticipated Completion Date:*
Immediately.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA
REBECCA A. REMONDINI, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Commissioners
County of Otsego, Michigan
225 W. Main St.
Gaylord, Michigan 49735

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan for the year ended December 31, 2012, and have issued our report thereon dated May 21, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated October 24, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider the County of Otsego, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Otsego, Michigan's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the County of Otsego, Michigan's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Otsego, Michigan's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it does not provide a legal determination on the County of Otsego, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated October 24, 2012.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Otsego, Michigan are described in Note 1 to the financial statements. Two new accounting policies were adopted regarding the implementation of GASB Statements 62 and 63 and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate to determine that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$1,206,000.

- Management's estimate of the Annual Required Contribution for OPEB Obligations and pension benefits were based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 21, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed for 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.

Comments and Recommendations

Sportsplex Payroll (Prior Year)

In our testing of payroll, it was noted that some employees did not have Form I-9 in their personnel files. It is recommended employees hired after November 6, 1986 have a completed Form I-9 included in their personnel file.

Status: Corrected.

Taxes Receivable and Revenue (Prior Year)

During our testing of tax revenue and taxes receivable, an audit adjustment was required to properly accrue property taxes. The County should accrue property taxes annually without auditor intervention.

Status: County corrected, EMS and Library uncorrected.

Accrual Based Accounting (Prior Year)

It was noted that the Library (component unit of the County) does not maintain its books on the accrual basis of accounting. It is recommended that the Library utilize the accrual based accounting features in Quickbooks by setting up Accounts Receivable and Accounts Payable.

Status: Corrected.

Bond Account (Prior Year)

During testing, it was noted the Bonds Payable and Restitutions Payable accounts in the Trust & Agency fund have not been reconciled to the related listing balances. It is recommended that the Bonds Payable and Restitutions Payable accounts in the Trust & Agency fund be more closely monitored to ensure the balances are reconciled to current information.

Status: Uncorrected.

Cash (Prior Year)

During testing, it was noted that there were some long outstanding checks still accounted for in the bank reconciliation. It is recommended that the bank reconciliation be checked for “stale” checks and that they are voided, escheated, or reissued if needed.

Status: Corrected.

DTRF Investment (Prior Year)

During testing, it was noted that investment income was not recorded in the DTRF fund because the income and fees were combined before being recorded. We recommend that the investment income and monthly fees be recorded separately as revenue and expense, respectively to help ensure more accurate record keeping.

Status: Uncorrected.

Bank Account Reconciliations (Prior Year)

The reconciliations are completed reconciling from book balance to bank instead of ending bank to book. We recommend that the reconciliations be performed as required by the accounting procedure manual for local units of government.

Status: Corrected.

EMS Checks (Prior Year)

During testing it was noted that the EMS did not receive the cancelled check images from their bank. We recommend that the EMS request and retain cancelled check images.

Status: Corrected.

Library Timesheets (Prior Year)

During testing, it was noted that some timesheets were not signed by the supervisor. We recommend that all employees sign their timesheets and their supervisors indicate by initial, authorization of those timesheets to help ensure accuracy.

Status: Corrected.

Library Timesheets (Prior Year)

During testing, it was noted that some timesheets were missing the employee signature and some were missing an authorizing signature. We recommend that all timesheets have an employee signature and an authorizing signature to help ensure accuracy.

Status: Corrected.

Form 941 Reporting (Prior Year)

The County includes total gross compensation in line 2 of the quarterly 941 wage report. This line item should not include deferred compensation and the sum of line 2 of all of the quarterly reports should match Box 1 of the form W-3 Annual Wage Report. It is recommended that the County review the 941 reporting instructions and make changes accordingly.

Status: Corrected.

Trust & Agency Funds (Prior Year)

The County has an old balance in the State Survey and Remonumentation trust & agency account. The current collections and quarterly distributions to the State are occurring in a timely manner; however, there is a beginning balance in the account of \$20,911, which is not accounted for. It is recommended that the County determine what these funds represent and properly distribute or account for them.

Status: Corrected.

Receipts (Prior Year)

It was noted during the testing of controls over cash receipts that one university center receipt did not have authorization. We recommend that each receipt is signed by authorized personnel to ensure proper handling of cash receipts.

Status: Corrected.

Disbursements (Prior Year)

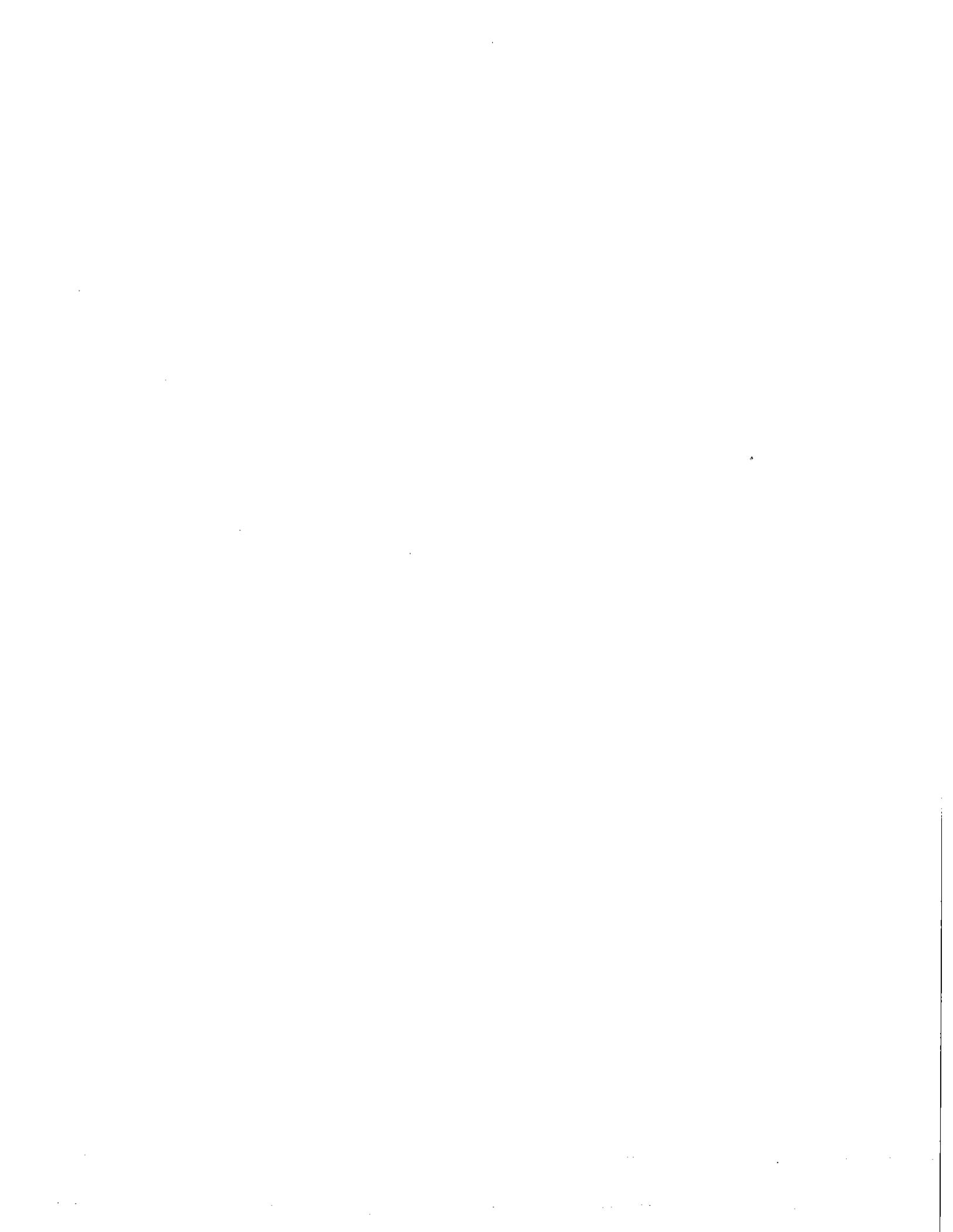
It was noted during the testing of controls over cash disbursements that one disbursement did not have proper authorization on the invoice. We recommend that each invoice is properly authorized before funds are disbursed to each vendor.

Status: Corrected.

Inmate Trust Account (Prior Year)

The County does not reconcile the inmate trust bank account to the inmate balances as required in this fund. It is recommended that this account be reconciled to individual inmate balances when the monthly bank reconciliation is prepared.

Status: Uncorrected.



Check Signatures (Prior Year)

During testing, it was noted that not all checks had two signatures before being disbursed as required. We recommend that all checks acquire two authorized signatures before being disbursed for payment.

Status: Corrected.

Bank Reconciliations

During testing, it was noted that bank reconciliations did not always contain the required individual transactions needed to reconcile bank balance to book balance. We recommend that all bank reconciliations contain, either in the same schedule or in a separate schedule, only the specific transactions needed to reconcile bank balance to book balance to help ensure accurate record keeping.

Bond and Garnishment Accounts

During testing, it was noted that the Bond and Garnishment accounts held in the Clerk's office did not have up to date listings and as a result could not be agreed to the balance on the general ledger. We recommend that the clerk's office develop accurate listings for the bond and garnishment liability accounts that are able to be tied to the general ledger account in the Trust and Agency fund to help ensure accuracy of accounting records.

Reporting Employer Provided Health Coverage on Form W-2

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2, Wage and Tax Statement. Many employers are eligible for transition relief for tax year 2013 and beyond, until the IRS issues final guidance for this reporting requirement.

The amount reported does not affect tax liability, as the value of the employer excludible contribution to health coverage continues to be excludible from an employee's income, and it is not taxable. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be informed consumers. More information about the reporting can be found at [Form W-2 Reporting of Employer-Sponsored Health Coverage](#).

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government's financial reporting.

Component Units

With the emergence of GASB 61, we recommend the County review its relationships with its component units as well as its Commission on Aging to make sure component units are reported correctly and if a contractual relationship would be beneficial.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This information is intended solely for the information and use of the Board of Commissioners, management, federal and state awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co PLC

**Anderson Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan**

May 21, 2013