Otsego County, Michigan

Otsego COUNTY MICHIGAN

Year Ended December 31, 2014

Financial Statements and Single Audit Act Compliance

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Business wisdom delivered.

OTSEGO COUNTY, MICHIGAN

ELECTED OFFICERS

For the Year Ended December 31, 2014

BOARD OF COMMISSIONERS

Lee Olsen
Chairman

Ken Borton
Vice Chairman

Erma Backenstose
Tammy LaBouef
Paul Liss
Richard Sumerix

Doug Johnson
Paul Beachnau
Bruce Brown

OTHER OFFICIALS

John Burt
Appointed County Administrator

Diann Axford
Treasurer

Susan DeFeyter
Clerk/Register of Deeds

Matthew Nowicki
Sheriff

Michael A. Rola
Prosecuting Attorney

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OTSEGO COUNTY, MICHIGAN

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Rehmann

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INDEPENDENT AUDITORS' REPORT

June 30, 2015

Honorable Members of the
Board of Commissioners
Otsego County
Gaylord, Michigan

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 ***Otsego County, Michigan*** (the "County"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Otsego County Road Commission, a discretely presented component unit, which represents 84 percent, 84 percent, and 59 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We did not audit the financial statements of the Otsego County Commission on Aging, a discretely presented component unit, which represents 3 percent, 4 percent, and 13 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We did not audit the financial statements of the Otsego County Bus System, a major enterprise fund of the County, which represents 6 percent, 6 percent, and 41 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Otsego County Road Commission, Otsego County Commission on Aging, and Otsego County Bus System, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Otsego County, Michigan,*** as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and each major special revenue fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

Restatements of Beginning Fund Balance/Net Position

As described in Note 21 to the financial statements, the beginning fund balance/net position of the governmental activities, business-type activities, General Fund, Delinquent Tax Revolving Fund, Bus System, Airport Fund and remaining aggregate funds was restated to correct errors presented in the prior year financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual fund financial statements 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 and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 30, 2015 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Rehmann Lohan LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Otsego County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Key metrics and financial highlights of the County for the year ended December 31, 2014 are as follows:

Total net position	$37,174,751
Unrestricted net position	18,059,686
Change in net position	(557,502)
Fund balances, governmental funds	10,509,272
Change in fund balances, governmental funds	297,836
Fund balance, general fund	4,129,864
(as percentage of general fund expenditures and transfers out)	55%
Unassigned fund balance, general fund	3,960,658
(as percentage of general fund expenditures and transfers out)	52%

Overview of the Financial Statements

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

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

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

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

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

Management's Discussion and Analysis

The government-wide financial statements include not only the County itself (known as the primary government), but also legally separate component units for which the County is financially accountable. The ***component units*** include the Otsego County Road Commission, Otsego County Ambulance Corporation, University Center at Gaylord, Otsego County Commission on Aging, and the Otsego County Sportsplex. Financial information for the balance of the discretely presented component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from the Otsego County Road Commission and Otsego County Commission on Aging component unit's office.

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

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

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

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

The County adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General Fund and major special revenue funds.

Proprietary funds. The County maintains several types of proprietary fund. 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, bus system, airport, global positioning system, metropolitan area network, homestead audit, and jail commissary operations. The County uses internal service funds to account for its building and grounds, administration services, and health care functions. Because these services predominately 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 in more detail. The proprietary fund financial statements provide information for the Delinquent Tax Fund, Bus System, and Airport, which are considered to be major funds of the County as well as the aggregate of the nonmajor enterprise funds.

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.

Management's Discussion and Analysis

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. This is limited to this management discussion and analysis and the schedules of funding progress and employer contributions for the County pension and other postemployment benefits plans.

The combining statements and schedules referred to earlier in connection with nonmajor funds are presented following the notes to the financial statement.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities and deferred inflows of resources by approximately $37,175,000 at the close of the most recent fiscal year. A portion of the County's net position represents its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Net Position

Net investment in capital assets is 44% of total net position. An additional portion of the County's net position, approximately 9%, represents resources that are subject to external restrictions on how they may be used. Restricted net position has constraints placed on it by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. The unrestricted portion of the County's net position is 47%. This net position may be used to meet the government's ongoing obligations to citizens and creditors.

The County's total net position decreased approximately 1%, or $558,000 to $37,175,000 for the year ended December 31, 2014.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 18,212,659	$ 14,374,647	$ 9,852,055	$ 9,361,245	$ 28,064,714	$ 23,735,892
Capital assets, net	9,281,689	9,680,744	8,729,213	9,553,967	18,010,902	19,234,711
Total assets	27,494,348	24,055,391	18,581,268	18,915,212	46,075,616	42,970,603
Long-term liabilities	2,693,185	2,190,232	-	-	2,693,185	2,190,232
Other liabilities	2,633,948	840,680	164,348	128,136	2,798,296	968,816
Total liabilities	5,327,133	3,030,912	164,348	128,136	5,491,481	3,159,048
Deferred inflows of resources						
Taxes levied for a subsequent period	3,409,384	2,079,302	-	-	3,409,384	2,079,302
Net position:						
Net investment in capital assets	7,552,810	7,659,818	8,729,213	9,553,967	16,282,023	17,213,785
Restricted	2,833,042	4,679,763	-	-	2,833,042	4,679,763
Unrestricted	8,371,979	6,605,596	9,687,707	9,233,109	18,059,686	15,838,705
Total net position	$ 18,757,831	$ 18,945,177	$ 18,416,920	$ 18,787,076	$ 37,174,751	$ 37,732,253

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	$ 2,383,204	$ 2,210,975	$ 2,112,152	$ 1,576,703	$ 4,495,356	$ 3,787,678
Operating grants	3,043,685	3,020,597	908,107	903,002	3,951,792	3,923,599
Capital grants	50,469	59,373	-	-	50,469	59,373
General revenues:						
Property taxes	6,590,904	6,784,537	282,973	285,605	6,873,877	7,070,142
Interest and rentals	262,437	171,400	400,881	23,395	663,318	194,795
Other	1,184,052	845,067	176,080	-	1,360,132	845,067
Gain on sale of capital assets	4,500		-	-	4,500	-
Total revenues	13,519,251	13,091,949	3,880,193	2,788,705	17,399,444	15,880,654
Expenses						
Legislative	200,730	193,700	-	-	200,730	193,700
Judicial	1,844,501	1,781,533	-		1,844,501	1,781,533
General government	2,725,833	2,362,984	-	-	2,725,833	2,362,984
Public safety	4,263,508	3,192,801	-	-	4,263,508	3,192,801
Public works	31,704	203,075	-	-	31,704	203,075
Health and welfare	1,246,762	1,137,498	-	-	1,246,762	1,137,498
Community & Economic Development	1,457,367	1,981,522	-	-	1,457,367	1,981,522
Recreation and culture	1,411,550	1,172,350	-	-	1,411,550	1,172,350
Other expenses	408,999	1,043,607	-		408,999	1,043,607
Interest - Unallocated	94,984	130,435	-			130,435
Delinquent tax collection	-	-	167,675	139,838	167,675	139,838
Bus System	-	-	1,997,639	1,840,469	1,997,639	1,840,469
Airport	-	-	1,725,427	1,069,216	1,725,427	1,069,216
Nonmajor Enterprise Funds	-	-	380,267	199,338	380,267	199,338
Total expenses	13,685,938	13,199,505	4,271,008	3,248,861	17,861,962	16,448,366
Change in net position, before transfers	(166,687)	(107,556)	(390,815)	(460,156)	(462,518)	(567,712)
Transfers	(20,659)	175,800	20,659	(175,800)	-	-
Change in net position	(187,346)	68,244	(370,156)	(635,956)	(557,502)	(567,712)
Net position:						
Beginning of year, as restated	18,945,177	18,876,933	18,787,076	19,423,032	37,732,253	38,299,965
End of year	$ 18,757,831	$ 18,945,177	$ 18,416,920	$ 18,787,076	$ 37,174,751	$ 37,732,253

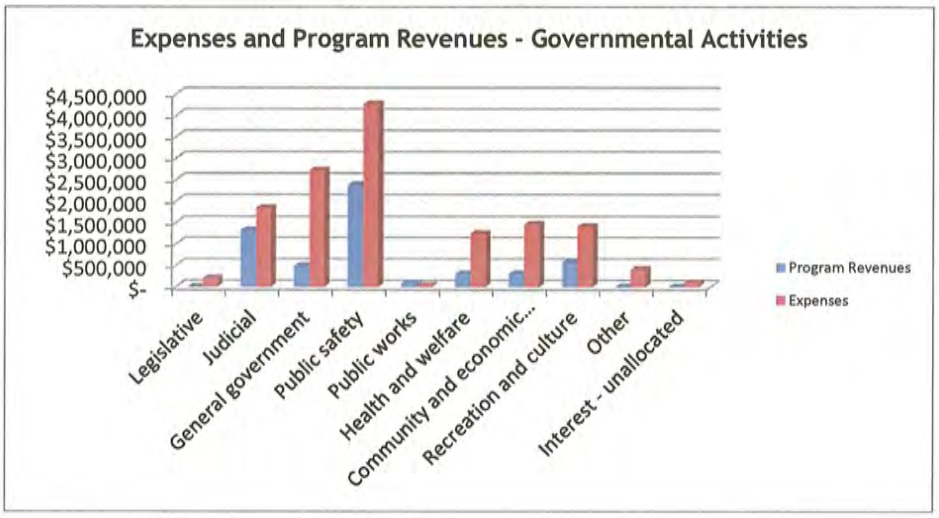
Governmental activities

Governmental activities decreased the County's net position by approximately $187,000. General government expenses increased approximately $363,000 during the current year which is related to building and grounds maintenance, remonumentation, and staffing costs. Public safety expenses increased approximately $1,071,000 during the current year which is related to expenditure of the Homeland Security Grant.

Management's Discussion and Analysis

Government activities include:

- Legislative activities - expenses related to support the Board of Commissioners and high-level administrative expenditures.
- Judicial activities - expenses related to the administration of circuit, district and probate/family courts and court probation units.
- General government activities - expenses related to support the departments of the County such as administration, human resources, treasury, information services, facilities management, finance, equalization, and prosecuting attorney.
- Public safety - expenses related to sheriff's administration and road patrol and County corrections services.
- Public works - expenses related to drains and airport planning grant.
- Health and welfare - expenses related to public health services, child care, programs for seniors, housing assistance programs, and medical examiner fees.
- Community and economic development - planning and zoning department.
- Recreational and cultural activities - expenses related to the County library.



Business-type activities

The business-type activities of the County include the following proprietary operations:

- Delinquent tax collection - this fund was established as a means of providing the local governments within the County's jurisdiction with 100% of the property tax distributions owed to them annually. The County then acts as the collection agency for the outstanding delinquent real property taxes.
- Bus system - the Otsego County Bus System is funded by Federal and State operating grants, a local special voted millage, and user fees. Expenditures include the management, operations, and maintenance of the Bus System.
- Airport - the Airport Fund accounts for the financial activity of the Gaylord Regional Airport. The main sources of revenue are fuel sales and an annual General Fund appropriation. Expenditures include the management, operations, and maintenance of the airport.

Financial Analysis of the County's Funds

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

Management's Discussion and Analysis

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. In 2014 unassigned fund balance represented 18% of annual government expenditures in the governmental funds.

The fund balance of the General Fund increased by approximately $380,000 from the prior year. Unassigned fund balance of approximately $2,475,000, is available for spending at the County's discretion.

The County's Housing Commission Special Revenue Fund fund balance at December 31, 2014 was approximately $170,000; a decrease of approximately $15,000 from the prior year.

The County's M-TEC Special Revenue Fund deficit balance at December 31, 2014 was approximately $82,000 which decreased approximately $82,000 from the prior year. The decrease was the result of not effectively managing expenditure levels.

Proprietary funds. The County's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Other factors considering the finances of these funds have been addressed in the discussion of the County's business-type activities.

Unrestricted net position of the enterprise funds at year end amounted to approximately $9,688,000. The enterprise funds had a decrease in net position for the year of approximately $370,000, due primarily to the Airport Fund being reclassified to business-type activities during the current year.

Unrestricted net position of the internal service funds at year end amounted to approximately $728,000. The internal service funds had a decrease in net position for year of approximately $70,000.

Budgetary Highlights

General Fund - The change between the original and final amended budgets of revenue in the General Fund was a 2.1 percent increase.

The change between the original and final amended budgets of expenditures in the General Fund resulted in a 4.2 percent increase.

Overall during the year, General Fund revenues were in line with the budgetary estimates and came in lower than anticipated by approximately $83,000 or 1.2 percent. Overall expenditures were under budget by approximately $638,000 or 9.0 percent.

Housing Commission Special Revenue Fund - The Housing Commission Special Revenue Fund had a favorable variance between the final amended budget and the actual expenditures by approximately $29,000 or 4.81 percent.

M-TEC Fund - The M-TEC Special Revenue Fund had a favorable variance between the final amended budget and actual expenditures of approximately $1,197,000 which is related to effectively managing expenses.

Capital Asset and Debt Administration

Capital Assets. A capital asset is an asset whose cost exceeds $5,000 and useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

Management's Discussion and Analysis

	Capital Assets (Net of Depreciation, where applicable)					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 1,827,962	$ 1,827,962	$ 99,998	$ 99,998	$ 1,927,960	$ 1,927,960
Construction in progress	53,244	1,768	-	-	53,244	1,768
Buildings	5,727,728	6,236,008	1,633,743	1,749,995	7,361,471	7,986,003
Furniture and Fixtures	161,987	201,929	-	-	161,987	201,929
Equipment	1,298,872	1,282,223	119,683	122,983	1,418,555	1,405,206
Vehicles	197,788	115,337	529,227	742,189	727,015	857,526
Infrastructure	14,108	15,517	6,346,562	6,838,802	6,360,670	6,854,319
Total capital assets, net	$ 9,281,689	$ 9,680,744	$ 8,729,213	$ 9,553,967	$18,010,902	$19,234,711

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Installment debt	$ 2,523,879	$ 2,845,926	$ -	$ -	$ 2,523,879	$ 2,845,926
Compensated absences	169,306	169,306	-	-	169,306	169,306
Total	$ 2,693,185	$ 3,015,232	$ -	$ -	$ 2,693,185	$ 3,015,232

Additional information on the County's capital assets and long-term debt can be found in the notes to the financial statements.

The County is required to report the actuarially computed liability for Other Postemployment Healthcare Benefits (OPEB). The total actuarial accrued liability is approximately $2,537,000. If the County were required to fund that liability the estimated annual contribution would be approximately $230,000. The net OPEB obligation at the end of the fiscal year amounted to approximately $1,985,000. This is a significant liability; however, due to changes in benefit levels for new employees, this liability is anticipated to decrease over time.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the County's 2015 budget:

- Property tax revenues are projected to remain at the same level.

Highlights of the 2015 budget are as follows:

- The cost of employee benefits continue to rise and will be monitored throughout the year.
- The County is back on the State's revenue sharing and will start receiving state shared revenue annually.

Requests for Information

This financial report is designed to provide a general overview of the County finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. John Burt, Otsego County Administrator at 225 West Main Street, Gaylord, MI 49735.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Statement of Net Position
December 31, 2014

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 6,393,761	$ 1,174,813	$ 7,568,574	$ 2,002,139
Investments	3,862,041	6,920,836	10,782,877	504,957
Receivables, net	7,383,563	1,778,944	9,162,507	4,230,066
Internal balances	125,372	(63,372)	62,000	-
Prepaid items	10,507	13,254	23,761	-
Inventory	17,459	27,580	45,039	678,368
Advance to component unit	419,956	-	419,956	-
Capital assets not being depreciated	1,881,206	99,998	1,981,204	170,157
Capital assets being depreciated, net	7,400,483	8,629,215	16,029,698	26,085,587
Total assets	27,494,348	18,581,268	46,075,616	33,671,274
Liabilities				
Accounts payable and accrued liabilities	615,890	164,348	780,238	265,034
Advances from other government units	-	-	-	263,337
Unearned revenue	33,128	-	33,128	64,923
Advance from primary government	-	-	-	419,956
Long-term liabilities:				
Due within one year	285,539	-	285,539	198,755
Due in more than one year	2,407,646	-	2,407,646	1,046,301
Net other postemployment benefits obligation	1,984,930	-	1,984,930	8,138,731
Total liabilities	5,327,133	164,348	5,491,481	10,397,037
Deferred inflows of resources				
Taxes levied for a subsequent period	3,409,384	-	3,409,384	2,521,773
Other state grants	-	-	-	85,109
Total deferred inflows	3,409,384	-	3,409,384	2,606,882
Net position				
Net investment in capital assets	7,552,810	8,729,213	16,282,023	25,151,829
Restricted	2,833,042	-	2,833,042	387,145
Unrestricted	8,371,979	9,687,707	18,059,686	(4,871,619)
Total net position	$ 18,757,831	$ 18,416,920	$ 37,174,751	$ 20,667,355

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

Statement of Activities

For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues
Primary government					
Governmental activities:					
Legislative	$ 200,730	$ -	$ -	$ -	$ (200,730)
Judicial	1,844,501	535,825	794,583	-	(514,093)
General government	2,725,833	379,148	109,501	-	(2,237,184)
Public safety	4,263,508	1,258,424	1,128,493	-	(1,876,591)
Public works	31,704	26,000	12,390	50,469	57,155
Health and welfare	1,246,762	-	301,568	-	(945,194)
Community and economic development	1,457,367	28,736	275,803	-	(1,152,828)
Recreation and culture	1,411,550	155,071	421,347	-	(835,132)
Other	408,999	-	-	-	(408,999)
Interest - unallocated	94,984	-	-	-	(94,984)
Total governmental activities	13,685,938	2,383,204	3,043,685	50,469	(8,208,580)
Business-type activities:					
Delinquent tax collection	167,675	427,907	-	-	260,232
Bus System	1,997,639	388,489	908,107	-	(701,043)
Airport	1,725,427	889,350	-	-	(836,077)
Non-major enterprise funds	380,267	406,406	-	-	26,139
Total business-type activities	4,271,008	2,112,152	908,107	-	(1,250,749)
Total primary government	$ 17,956,946	$ 4,495,356	$ 3,951,792	$ 50,469	$ (9,459,329)
Component units					
Road Commission	$ 8,074,074	$ 1,219,039	$ 5,059,316	$ 1,338,210	$ (457,509)
Ambulance	2,042,685	1,483,456	-	-	(559,229)
University center	933,308	231,543	-	-	(701,765)
Commission on Aging 9/30/2014	1,705,935	77,028	388,567	-	(1,240,340)
Sportsplex	838,810	526,194	-	4,000	(308,616)
Total component units	$ 13,594,812	$ 3,537,260	$ 5,447,883	$ 1,342,210	$ (3,267,459)

Continued...

Statement of Activities
For the Year Ended December 31, 2014

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net position				
Net expenses	$ (8,208,580)	$ (1,250,749)	$ (9,459,329)	$ (3,267,459)
General revenues:				
Property taxes	6,590,904	282,973	6,873,877	2,486,788
Interest and rentals	262,437	400,881	663,318	13,212
Other revenue	1,184,052	176,080	1,360,132	364,605
Gain on sale of capital assets	4,500	-	4,500	23,470
Transfers	(20,659)	20,659	-	-
Total general revenues and transfers	8,021,234	880,593	8,901,827	2,888,075
Change in net position	(187,346)	(370,156)	(557,502)	(379,384)
Net position, beginning of year, as restated	18,945,177	18,787,076	37,732,253	21,046,739
Net position, end of year	$ 18,757,831	$ 18,416,920	$ 37,174,751	$ 20,667,355

Concluded

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

FUND FINANCIAL STATEMENTS

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OTSEGO COUNTY, MICHIGAN

Balance Sheet
Governmental Funds
December 31, 2014

	General Fund	Special Revenue Funds: Housing Commission	Special Revenue Funds: M-TEC	EMS Building Capital Project Fund
Assets				
Cash and cash equivalents	$ 1,162,978	$ 174,124	$ 519	$ -
Investments	2,647,757	-	-	-
Receivables, net:				
Accounts	49,152	48	-	-
Property taxes	226,635	-	738,810	1,136,419
Due from other governments	288,338	-	-	-
Loans	-	2,144,696	-	-
Due from other funds	62,000	-	-	-
Advances to other funds	-	-	-	-
Advances to component units	-	-	-	-
Inventories	17,134	-	-	-
Prepaids	4,408	-	-	-
Total assets	$ 4,458,402	$ 2,318,868	$ 739,329	$ 1,136,419
Liabilities				
Accounts payable	$ 221,402	$ 3,819	$ 82,975	$ -
Accrued liabilities	85,001	847	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	306,403	4,666	82,975	-
Deferred inflows of resources				
Taxes levied for a subsequent period	22,135	-	738,810	1,136,419
Unavailable resources	-	2,144,696	-	-
Total deferred inflows of resources	22,135	2,144,696	738,810	1,136,419
Fund balances				
Nonspendable	21,542	-	-	-
Restricted	-	169,506	-	-
Committed	-	-	-	-
Assigned	147,664	-	-	-
Unassigned (deficit)	3,960,658	-	(82,456)	-
Total fund balances	4,129,864	169,506	(82,456)	-
Total liabilities, deferred inflows of resources, and fund balances	$ 4,458,402	$ 2,318,868	$ 739,329	$ 1,136,419

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

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 4,319,244	$ 5,656,865
-	1,214,284	3,862,041
-	257,390	306,590
-	1,512,020	3,613,884
795,000	229,759	1,313,097
-	-	2,144,696
-	7,575	69,575
-	195,304	195,304
-	419,956	419,956
-	-	17,134
-	-	4,408
$ 795,000	$ 8,155,532	$ 17,603,550
$ -	$ 136,872	$ 445,068
-	28,438	114,286
-	13,209	13,209
-	7,575	7,575
-	131,932	131,932
-	33,128	33,128
-	351,154	745,198
-	1,512,020	3,409,384
795,000	-	2,939,696
795,000	1,512,020	6,349,080
-	615,260	636,802
-	2,686,320	2,855,826
-	2,990,778	2,990,778
-	-	147,664
-	-	3,878,202
-	6,292,358	10,509,272
$ 795,000	$ 8,155,532	$ 17,603,550

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2014

Fund balances - total governmental funds	$ 10,509,272
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.	
Capital assets not being depreciated	1,881,206
Capital assets being depreciated, net	7,400,483
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.	
Unavailable resources	2,939,696
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.	
Net position of governmental activities accounted for in internal service funds	728,073
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds and notes payable	(2,523,879)
Compensated absences	(169,306)
OPEB liabilities	(1,984,930)
Accrued interest on long-term debt	(22,784)
Net position of governmental activities	$ 18,757,831

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

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Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds
For the Year Ended December 31, 2014

	General Fund	Special Revenue Funds: Housing Commission	Special Revenue Funds: M-TEC	EMS Building Capital Project Fund
Revenues				
Taxes	$ 4,376,540	$ -	$ 728,010	$ -
Licenses and permits	40,923	-	-	-
Federal sources	65,239	248,274	-	-
State sources	1,043,338	-	-	-
Local sources	20,246	237,123	-	-
Charges for services	838,397	-	-	-
Fines and forfeits	19,397	-	-	-
Interest and rentals	134,586	129	-	-
Other	574,595	73,935	5,240	-
Total revenues	7,113,261	559,461	733,250	-
Expenditures				
Current:				
Legislative	200,730	-	-	-
Judicial	1,374,239	-	-	-
General government	1,945,278	-	-	-
Public safety	1,852,111	-	-	-
Public works	8,780	-	-	-
Health and welfare	564,077	-	-	-
Community and economic development	67,220	574,441	815,706	-
Recreation and culture	-	-	-	-
Other	408,999	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	36,714	-	-	-
Total expenditures	6,458,148	574,441	815,706	-
Revenues over (under) expenditures	655,113	(14,980)	(82,456)	-
Other financing sources (uses)				
Transfers in	816,949	121,771	-	-
Transfers out	(1,095,163)	(122,148)	-	-
Proceeds from sale of capital assets	3,000	-	-	-
Total other financing sources (uses)	(275,214)	(377)	-	-
Net change in fund balances	379,899	(15,357)	(82,456)	-
Fund balances, beginning of year, as restated	3,749,965	184,863	-	-
Fund balances (deficit), end of year	$ 4,129,864	$ 169,506	$ (82,456)	$ -

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

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 1,486,354	$ 6,590,904
-	-	40,923
-	1,067,744	1,381,257
-	349,596	1,392,934
302,188	24,294	583,851
-	1,503,884	2,342,281
-	182,880	202,277
65,200	62,155	262,070
-	303,630	957,400
367,388	4,980,537	13,753,897
-	-	200,730
-	457,732	1,831,971
-	228,033	2,173,311
-	2,129,768	3,981,879
-	17,901	26,681
-	682,685	1,246,762
-	-	1,457,367
-	1,106,481	1,106,481
-	-	408,999
275,000	47,047	322,047
91,193	-	91,193
-	561,035	597,749
366,193	5,230,682	13,445,170
1,195	(250,145)	308,727
-	1,009,989	1,948,709
(165,007)	(581,782)	(1,964,100)
-	1,500	4,500
(165,007)	429,707	(10,891)
(163,812)	179,562	297,836
163,812	6,112,796	10,211,436
$ -	$ 6,292,358	$ 10,509,272

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2014

Net change in fund balances - total governmental funds	$	297,836
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds reported capital outlays as expenditures. However in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
Acquisition/construction of capital assets		272,945
Depreciation expense		(672,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.		
Net change in unavailable resources		(239,594)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal payments on long-term liabilities		322,047
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest payable on long-term debt		(3,791)
Change in net other postemployment benefits obligation		(94,622)
An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.		
Change in net position from governmental activities in internal service funds		(70,167)
Change in net position of governmental activities	$	(187,346)

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

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 4,800,967	$ 4,800,967	$ 4,376,540	$ (424,427)
Licenses and permits	24,800	24,800	40,923	16,123
Federal sources	78,000	86,732	65,239	(21,493)
State sources	885,392	1,017,982	1,043,338	25,356
Local sources	19,800	19,800	20,246	446
Charges for services	831,385	831,385	838,397	7,012
Fines and forfeits	7,200	7,200	19,397	12,197
Interest and rentals	90,000	90,000	134,586	44,586
Other	312,076	317,451	574,595	257,144
Total revenues	7,049,620	7,196,317	7,113,261	(83,056)
Expenditures				
Legislative:				
Board of Commissioners	199,862	204,662	200,730	(3,932)
Judicial:				
Circuit court	1,085,445	1,085,537	993,394	(92,143)
Lein fees	11,800	11,800	9,343	(2,457)
Drug court	127,553	127,553	101,881	(25,672)
RDSS transport	15,000	15,000	5,771	(9,229)
District court	71,274	71,274	68,933	(2,341)
Jury commission	28,850	28,850	17,420	(11,430)
Probate court	176,249	176,249	173,101	(3,148)
Probation/parole	1,500	1,750	1,651	(99)
Family counseling	4,000	4,000	2,745	(1,255)
Total judicial	1,521,671	1,522,013	1,374,239	(147,774)
General government:				
Administrative services	215,317	215,792	215,792	-
Buildings and grounds	367,392	367,392	367,417	25
Clerk and register of deeds	251,729	252,554	247,348	(5,206)
Audit services	17,000	17,000	14,903	(2,097)
IT department	62,160	62,160	54,029	(8,131)
Equalization	243,992	247,683	244,738	(2,945)
Treasurer	106,443	106,693	103,277	(3,416)
Cooperative extension	55,331	55,641	55,640	(1)
Elections	18,740	22,840	22,503	(337)
Prosecuting attorney	433,853	428,681	367,517	(61,164)
Register of deeds	47,644	55,066	51,453	(3,613)
Legal defense	50,000	80,000	78,981	(1,019)
Human resources	66,836	67,011	67,011	-
Surveyor	200	200	200	-
Soil conservation	4,000	4,000	4,000	-
Survey and remonumentation	50,469	50,469	50,469	-
Total general government	1,991,106	2,033,182	1,945,278	(87,904)

Continued...

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public safety:				
Sherriff	$ 732,395	$ 727,844	$ 675,123	$ (52,721)
Civil division	31,275	43,775	40,437	(3,338)
SANE	10,000	10,000	10,000	-
Justice training	2,000	2,000	1,684	(316)
Marine safety	8,639	11,639	7,735	(3,904)
Motorcycle safety education	53,600	59,432	44,063	(15,369)
Snowmobile	10,342	10,342	2,056	(8,286)
Secondary road patrol	65,720	77,846	76,623	(1,223)
ORV	10,642	10,642	10,554	(88)
Jail	991,424	986,274	953,836	(32,438)
Emergency	30,000	30,000	30,000	-
Total public safety	1,946,037	1,969,794	1,852,111	(117,683)
Public works:				
Drains	5,000	8,780	8,780	-
Health and welfare:				
Communicable diseases	500	500	500	-
Medical examiner	99,040	99,040	86,497	(12,543)
District health	177,578	177,578	177,578	-
Mental health	94,003	94,003	94,003	-
Soldiers and sailors relief	5,400	5,400	3,100	(2,300)
Homeless shelter	-	-	-	-
Veteran's burial	8,450	8,450	5,944	(2,506)
Veteran's affairs	44,036	44,641	43,187	(1,454)
Substance abuse	111,402	153,268	153,268	-
Total health and welfare	540,409	582,880	564,077	(18,803)
Community and Economic Development				
Planning and zoning	83,720	76,860	67,220	(9,640)
Other:				
Appropriations	19,954	16,954	15,637	(1,317)
Bonds and insurance	258,671	262,651	262,651	-
Retiree insurance	95,000	78,423	77,721	(702)
Other	134,690	300,438	52,990	(247,448)
Total other	508,315	658,466	408,999	(249,467)
Capital outlay	13,000	39,698	36,714	(2,984)
Total expenditures	6,809,120	7,096,335	6,458,148	(638,187)
Revenues over expenditures	240,500	99,982	655,113	555,131

Continued...

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Operating transfers in	$ 682,576	$ 815,282	$ 816,949	$ 1,667
Operating transfers out	(823,076)	(1,099,438)	(1,095,163)	(4,275)
Proceeds from sale of capital assets	-	-	3,000	(3,000)
Total other financing sources (uses)	(140,500)	(284,156)	(275,214)	(5,608)
Net change in fund balance	100,000	(184,174)	379,899	564,073
Fund balance, beginning of year, as restated	3,749,965	3,749,965	3,749,965	-
Fund balance, end of year	$ 3,849,965	$ 3,565,791	$ 4,129,864	$ 564,073

Concluded

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

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Housing Commission Special Revenue Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal sources	$ 280,000	$ 280,000	$ 248,274	$ (31,726)
Local sources	60,000	261,300	237,123	(24,177)
Interest and rentals	150	150	129	(21)
Other revenue	42,104	64,440	73,935	9,495
Total revenues	382,254	605,890	559,461	(46,429)
Expenditures				
Current:				
Community and economic development	383,817	603,462	574,441	(29,021)
Revenues over (under) expenditures	(1,563)	2,428	(14,980)	(17,408)
Other financing sources (uses)				
Operating transfers in	79,300	106,680	121,771	15,091
Operating transfers out	(80,000)	(123,568)	(122,148)	(1,420)
Total other financing sources (uses)	(700)	(16,888)	(377)	16,511
Net change in fund balances	(2,263)	(14,460)	(15,357)	(897)
Fund balance, beginning of year	184,863	184,863	184,863	-
Fund balance, end of year	$ 182,600	$ 170,403	$ 169,506	$ (897)

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

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - M-TEC Special Revenue Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ -	$ 2,012,212	$ 728,010	$ (1,284,202)
Other	-	-	5,240	5,240
Total revenues	-	2,012,212	733,250	(1,278,962)
Expenditures				
Community/economic development	-	2,012,212	815,706	(1,196,506)
Net change in fund balances	-	-	(82,456)	(82,456)
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	$ -	$ -	$ (82,456)	$ (82,456)

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

Statement of Net Position

Proprietary Funds
December 31, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities
	Delinquent Tax Revolving Fund	Bus System 9/30/2014	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
Assets						
Current assets:						
Cash and cash equivalents	$ 441,372	$ 79,372	$ 126,227	$ 527,842	$ 1,174,813	$ 736,896
Investments	6,159,870	-	-	760,966	6,920,836	-
Taxes receivable	1,378,384	-	-	-	1,378,384	-
Interest receivable	167,083	-	-	-	167,083	-
Accounts receivable, net	61,592	14,348	71,743	4,911	152,594	5,296
Due from other governments	-	80,883	-	-	80,883	-
Inventories	-	-	27,580	-	27,580	325
Prepaids	-	-	13,254	-	13,254	6,099
Total current assets	8,208,301	174,603	238,804	1,293,719	9,915,427	748,616
Noncurrent assets:						
Capital assets not being depreciated	-	99,998	-	-	99,998	-
Capital assets being depreciated, net	-	867,019	7,651,513	110,683	8,629,215	-
Total noncurrent assets	-	967,017	7,651,513	110,683	8,729,213	-
Total assets	8,208,301	1,141,620	7,890,317	1,404,402	18,644,640	748,616
Liabilities						
Current liabilities:						
Accounts payable	16,706	20,313	27,817	28,524	93,360	16,613
Accrued liabilities	1,922	62,776	4,966	1,324	70,988	3,930
Total current liabilities	18,628	83,089	32,783	29,848	164,348	20,543
Noncurrent liabilities:						
Advances from other funds	-	-	63,372	-	63,372	-
Total liabilities	18,628	83,089	96,155	29,848	227,720	20,543
Net position						
Investment in capital assets	-	967,017	7,651,513	110,683	8,729,213	-
Unrestricted	8,189,673	91,514	142,649	1,263,871	9,687,707	728,073
Total net position	$ 8,189,673	$ 1,058,531	$ 7,794,162	$ 1,374,554	$ 18,416,920	$ 728,073

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

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities
	Delinquent Tax Revolving Fund	Bus System 9/30/2014	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating revenues						
Charges for services	$ 90,501	$ 388,489	$ 879,067	$ 394,002	$ 1,752,059	$ 1,951,284
Interest and penalties	337,406	-	-	-	337,406	-
Local sources	-	-	-	12,404	12,404	-
Other	-	-	10,283	-	10,283	-
Total operating revenues	427,907	388,489	889,350	406,406	2,112,152	1,951,284
Operating expenses						
Salaries and fringes	47,147	1,272,142	87,633	46,808	1,453,730	1,508,713
Contractual services	103,237	-	171,747	103,119	378,103	233,311
Materials and supplies	3,888	-	778,199	70,034	852,121	9,205
Equipment repair and maintenance	-	-	-	-	-	20,616
Utilities	-	-	-	-	-	236,111
Depreciation	-	250,964	571,487	12,303	834,754	-
Other	13,403	474,533	116,361	148,003	752,300	8,675
Total operating expenses	167,675	1,997,639	1,725,427	380,267	4,271,008	2,016,631
Operating income (loss)	260,232	(1,609,150)	(836,077)	26,139	(2,158,856)	(65,347)
Nonoperating revenues						
State operating grants	-	630,713	-	-	630,713	-
Federal operating grants	-	277,394	-	-	277,394	-
Investment earnings	360,241	-	19,289	21,351	400,881	367
Property taxes levied	-	282,973	-	-	282,973	-
Other revenues	1,043	23,290	86,078	65,669	176,080	81
Total nonoperating revenues	361,284	1,214,370	105,367	87,020	1,768,041	448
Income (loss) before transfers	621,516	(394,780)	(730,710)	113,159	(390,815)	(64,899)
Transfers						
Transfers in	101	-	224,532	31,101	255,734	405
Transfers out	(200,000)	-	-	(35,075)	(235,075)	(5,673)
Total transfers	(199,899)	-	224,532	(3,974)	20,659	(5,268)
Change in net position	421,617	(394,780)	(506,178)	109,185	(370,156)	(70,167)
Net position, beginning of year, as restated	7,768,056	1,453,311	8,300,340	1,265,369	18,787,076	798,240
Net position, end of year	$ 8,189,673	$ 1,058,531	$ 7,794,162	$ 1,374,554	$ 18,416,920	$ 728,073

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

OTSEGO COUNTY, MICHIGAN

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Fund	Bus System 9/30/2014	Airport
Cash flows from operating activities			
Receipts from customers	$ 1,688,227	$ 428,400	$ 853,738
Internal activity - receipts from other funds	-	-	-
Payments to suppliers	(112,910)	(479,582)	(1,057,826)
Payments to employees for services and benefits	(46,925)	(1,261,189)	(85,625)
Net cash provided by (used in) operating activities	1,528,392	(1,312,371)	(289,713)
Cash flows from noncapital financing activities			
State grants	-	630,713	-
Federal grants	-	277,394	-
Property tax	-	282,973	-
Other receipts	1,043	23,290	86,078
Operating transfers in	101	-	224,532
Operating transfers out	(200,000)	-	-
Net cash provided by (used in) noncapital financing activities	(198,856)	1,214,370	310,610
Cash flows from capital and related financing activities			
Purchase of capital assets	-	-	(10,000)
Cash flows from investing activities			
Net purchase of investments	(2,697,611)	-	-
Interest received on investments	360,241	-	19,289
Net cash provided by (used in) investing activities	(2,337,370)	-	19,289
Net increase (decrease) in cash and cash equivalents	(1,007,834)	(98,001)	30,186
Cash and cash equivalents, beginning of year	1,449,206	177,373	96,041
Cash and cash equivalents, end of year	$ 441,372	$ 79,372	$ 126,227
Cash flows from operating activities			
Operating income (loss)	$ 260,232	$ (1,609,150)	$ (836,077)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	250,964	571,487
Change in:			
Taxes receivable	76,653	-	-
Interest receivable	1,392	-	-
Accounts receivable	1,182,275	(5,012)	(35,612)
Due from other funds	-	-	-
Due from other governmental units	-	44,923	-
Prepaid items	-	-	-
Inventories	-	-	797
Accounts payable	7,618	(5,049)	7,684
Accrued liabilities	222	10,953	2,008
Net cash provided by (used in) operating activities	$ 1,528,392	$ (1,312,371)	$ (289,713)

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

Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 405,477	$ 3,375,842	$ -
-	-	1,952,732
(355,188)	(2,005,506)	(511,247)
-	(1,393,739)	(1,454,704)
50,289	(23,403)	(13,219)
-	630,713	-
-	277,394	-
-	282,973	-
65,669	176,080	81
31,101	255,734	405
(35,075)	(235,075)	(5,673)
61,695	1,387,819	(5,187)
-	(10,000)	-
(166,947)	(2,864,558)	-
21,351	400,881	367
(145,596)	(2,463,677)	367
(33,612)	(1,109,261)	(18,039)
561,454	2,284,074	754,935
$ 527,842	$ 1,174,813	$ 736,896
$ 26,139	$ (2,158,856)	$ (65,347)
12,303	834,754	-
-	76,653	-
-	1,392	-
(929)	1,140,722	812
-	-	636
-	44,923	-
-	-	65,068
-	797	-
13,058	23,311	(14,872)
(282)	12,901	484
$ 50,289	$ (23,403)	$ (13,219)

OTSEGO COUNTY, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds
December 31, 2014

	Agency Funds
Assets	
Cash and cash equivalents	$ 1,695,485
Liabilities	
Undistributed tax collections	953,245
Bonds, restitutions, and payables to others	742,240
Total liabilities	$ 1,695,485

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

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OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position

Discretely Presented Component Units
December 31, 2014

	Road Commission	Ambulance Corporation	University Center
Assets			
Cash and cash equivalents	$ 417,353	$ 122,101	$ 634,276
Investments	51,156	5,278	301,156
Receivables, net:			
Accounts	982,145	658,000	9,201
Taxes	1,141,288	457,183	641,515
Inventories	655,931	-	-
Capital assets not being depreciated	170,157	-	-
Capital assets being depreciated, net	24,826,048	1,067,563	191,976
Total assets	28,244,078	2,310,125	1,778,124
Liabilities			
Accounts payable	92,947	43,281	44,265
Accrued liabilities	-	-	36,500
Due to other governments	6,443	-	-
Advances from government units	263,337	-	-
Unearned revenue	-	-	12,543
Advances from primary government	-	419,956	-
Long-term liabilities:			
Due within one year	188,534	10,221	-
Due in more than one year	1,039,700	6,601	-
Net other postemployment benefits obligation	8,138,731	-	-
Total liabilities	9,729,692	480,059	93,308
Deferred inflows of resources			
Taxes levied for a subsequent period	1,141,288	457,183	636,515
Other state grants	85,109	-	-
Total deferred inflows	1,226,397	457,183	636,515
Net position			
Net investment in capital assets	23,892,290	1,067,563	191,976
Restricted	-	-	343,145
Unrestricted	(6,604,301)	305,320	513,180
Total net position	$ 17,287,989	$ 1,372,883	$ 1,048,301

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

Commission on Aging 9/30/2014	Sportsplex	Total
$ 784,055	$ 44,354	$ 2,002,139
44,000	103,367	504,957
13,267	40,680	1,703,293
-	286,787	2,526,773
2,149	20,288	678,368
-	-	170,157
-	-	26,085,587
843,471	495,476	33,671,274
34,969	6,629	222,091
-	-	36,500
-	-	6,443
-	-	263,337
-	52,380	64,923
-	-	419,956
-	-	198,755
-	-	1,046,301
-	-	8,138,731
34,969	59,009	10,397,037
-	286,787	2,521,773
-	-	85,109
-	286,787	2,606,882
-	-	25,151,829
44,000	-	387,145
764,502	149,680	(4,871,619)
$ 808,502	$ 149,680	$ 20,667,355

Combining Statement of Activities

Discretely Presented Component Units
For the Year Ended December 31, 2014

	Road Commission	Ambulance Corporation	University Center
Expenses			
Road Commission	$ 8,074,074	$ -	$ -
Ambulance Corporation	-	2,042,685	-
University Center	-	-	933,308
Commission on Aging	-	-	-
Sportsplex	-	-	-
Total expenses	8,074,074	2,042,685	933,308
Program revenues			
Charges for services	1,219,039	1,483,456	231,543
Operating grants and contributions	5,059,316	-	-
Capital grants	1,338,210	-	-
Total program revenues	7,616,565	1,483,456	231,543
Net expense	(457,509)	(559,229)	(701,765)
General revenues			
Property taxes	-	445,979	629,018
Investment earnings	-	2,875	3,787
Gain on sale of capital assets	23,470	-	-
Other	155,509	49,895	38,997
Total general revenues	178,979	498,749	671,802
Change in net position	(278,530)	(60,480)	(29,963)
Net position, beginning of year, as restated	17,566,519	1,433,363	1,078,264
Net position, end of year	$ 17,287,989	$ 1,372,883	$ 1,048,301

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

Commission on Aging 9/30/2014	Sportsplex	Total
$ -	$ -	$ 8,074,074
-	-	2,042,685
-	-	933,308
1,705,935	-	1,705,935
-	838,810	838,810
1,705,935	838,810	13,594,812
77,028	526,194	3,537,260
388,567	-	5,447,883
-	4,000	1,342,210
465,595	530,194	10,327,353
(1,240,340)	(308,616)	(3,267,459)
1,132,067	279,724	2,486,788
4,278	2,272	13,212
-	-	23,470
96,645	23,559	364,605
1,232,990	305,555	2,888,075
(7,350)	(3,061)	(379,384)
815,852	152,741	21,046,739
$ 808,502	$ 149,680	$ 20,667,355

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County (the "County" or the "government") 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 operates under an elected board of commissioners (nine members) with an appointed county coordinator who assists with day-to-day operations. The County 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 financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

Reporting Entity

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

Blended Component Units

Otsego County Building Authority (the "Building Authority") - The 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 Funds as presented in this report.

Otsego County Bus System (the "Bus System") - The 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 tax levy as well as reported in the Bus System Fund.

Discretely Presented Component Units

Otsego County Road Commission (the "Road Commission") - The 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 is responsible for the maintenance and construction of the County road system. It may not issue debt without the County's approval and the tax levy is subject to the 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.

Notes to Financial Statements

Otsego County Ambulance Corporation, Inc. (the "Ambulance Corporation") - The Ambulance Corporation, 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 the County Board of Commissioners' approval. If approval is granted, the Ambulance Corporation'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 Corporation Fund. All assets are in the name of the County.

Otsego County University Center (the "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, 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.

Otsego County Commission on Aging (the "Commission") - The Commission is legally separable and administered by an advisory Board of Directors (the "Board") with twelve members. The Commission may not issue debt and the tax levy is subject to the 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.

Otsego County Sportsplex (the "Sportsplex") - The 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 and 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 the 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 component unit in this report.

Complete financial statements of the individual component units can be obtained from their respective administrative offices as listed on the following page or from the County Clerk's Office at 225 West Main Street, Gaylord, MI 49735.

Administrative Offices

Otsego County Bus System
1254 Energy Drive
Gaylord, MI 49735

Otsego County Road Commission
Industrial Park, PO Box 537
Gaylord, MI 49735

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, MI 49735

Otsego County University Center
80 Livingston Boulevard
Gaylord, MI 49735

Otsego County Ambulance Corporation, Inc.
100 McLouth, PO Box 642
Gaylord, MI 49735

Joint Ventures

The County participates in the following activities, which are considered to be joint ventures in relation to the County due to the formation of an organization by contractual agreement between two or more participants that maintain joint control, financial interest, and fiscal responsibility.

Northwest Michigan Community Health Agency (the "Health Agency") - The Health Agency provides health service for residents of 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 financial statements of Charlevoix County. The funding formula, approved by the member Counties, is based on a pro rata amount based on each unit's population and equalized valuation to the member Counties total population and valuation. Member Counties' percentages of the net operation budget for the year 2014 were as follows:

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

Otsego County's appropriation to the Health Agency for the year was $177,578.

Michigan Technical Education Center - 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 Michigan Technical Education Center ("M-TEC"), an educational facility in the County of Otsego. On December 7, 1999, the electors of the County authorized a tax levy not to exceed .56 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 are audited separately.

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 Authority (the "CMH Authority") - The CMH Authority consists of the counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska, and Otsego. Financial records for the CMH Authority are recorded and maintained by the Authority and audited separately.

Notes to Financial Statements

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 Otsego County 2014 local match was $94,003.

Fiscal Year End Other Than December 31, 2014

The financial information presented in this report is for the year ended December 31, 2014, except for the following funds:

Fund	Fund Presentation	Fiscal Year End
Commission on Aging	Component Unit	September 30, 2014
Bus System	Enterprise Fund	September 30, 2014

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, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain 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 revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Notes to Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. A 60-day availability period is used for revenue recognition for all governmental fund revenues, except for expenditure-driven grants, which must be collected within one year, and property taxes. Property taxes for the County, levied and payable within the current fiscal year, are fully recognized inasmuch as any uncollected taxes are settled with the Delinquent Tax Revolving fund not later than March 1 of the following fiscal year. While this schedule exceeds the normal availability period for property taxes of 60 days, management believes that fully recognizing property taxes in the year they are intended to finance better reflects the matching concept of generally accepted accounting principles. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The County reports the following major governmental funds:

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

The *Housing Commission Special Revenue Fund* accounts for grant revenue and contributions reserved for the improvement of housing within the County.

The *M-TEC Special Revenue Fund* accounts for activities of an educational facility providing workforce development programs.

The *EMS Building Capital Project Fund* accounts for taxes levied to fund an addition and improvements to the existing EMS building.

The *Debt Service Fund* accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The County reports the following major proprietary funds:

The *Delinquent Tax Revolving Fund* accounts for the collection of delinquent taxes.

The *Bus System Fund* accounts for the operation of the public transit system.

The *Airport Fund* accounts for the financial activity of the Gaylord Regional Airport.

Additionally, the County reports the following fund types:

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

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

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

Internal Service Funds account for buildings and grounds, administrative services, and employee health benefits provided to other departments or agencies of the County on a cost reimbursement basis.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

Assets, liabilities, deferred inflows of resources, and equity

Deposits and investments

The government's cash and cash equivalents include cash on hand, amounts in demand deposit accounts 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 is allocated to each fund based on the average cash balance. Deposits are recorded at cost.

State statutes authorize the County to invest in:

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

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

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

Bankers' acceptances of United States banks.

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

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

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

Receivables and payables

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

All trade and property tax receivables are shown net of an allowance for uncollectible accounts, as applicable. Property taxes are levied on 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.

Accounts Receivable - Ambulance Corporation Component Unit

The accounts receivable balance is presented net of allowance for doubtful accounts of $1,386,000.

Other assets

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.

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 columns 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. Capital assets are stated at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at their market value as of the date of donation.

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

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

	Years
Buildings	40
Bus operating facility	12-20
Shop equipment and furniture	3-10
Vehicles	3-7
Office equipment	3-10
Other infrastructure	20

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

Road Commission- Discretely Presented Component Unit

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digit 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 the following estimated useful lives:

	Years
Buildings	30-50
Road equipment	5-8
Shop equipment	10
Engineering equipment	4-10
Office equipment	4-10
Infrastructure - roads	8-30
Infrastructure - bridges	12-50

Deferred outflows of resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has no items that qualify for reporting in this category.

Accrued compensated absences (vacation and sick leave)

It is the County's policy to permit employees to accumulate earned but unused sick pay for the library employees and vacation pay benefits for all of the employees with certain limitations which vary among employee classification. Vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirements.

Notes to Financial Statements

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line basis. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expense when incurred.

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

Deferred inflows of resources

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

Fund balances

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

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

Notes to Financial Statements

Interfund transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Internal service funds are used to record charges for services to all County departments and funds as transfers or operating revenue. All County funds record these payments to the internal service funds as transfers or operating expenditures/expenses.

Unearned revenues

Unearned 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 federal sources in accordance with the terms of the representative grants.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates of the County include management's estimate of the insurance claims incurred but not reported and the assumptions used in the actuarial valuations of the pension and other postemployment benefit plans.

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.

Reclassifications

Certain prior year comparative amounts have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported net position or fund balances.

Notes to Financial Statements

2. BUDGETARY INFORMATION

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. 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.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to the first day of the following fiscal year, the budget is legally enacted through a resolution passed by the Board of Commissioners.

4. 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.

5. The budget and approved appropriations lapse at the end of the fiscal year.

6. 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 board is the departmental level.

3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the County were adopted on the departmental level basis for all governmental funds, which is the legal level of control. During the year ended December 31, 2014 the County had building and grounds expenditures in the General Fund which were in excess of the amounts budgeted by $25.

Notes to Financial Statements

4. DEFICIT FUND BALANCE

The M-TEC Special Revenue Fund reported a deficit fund balance of $82,456 at December 31, 2014. The County plans to recover this deficit with transfers from the General Fund.

The Road Commission discretely presented component unit reported a deficit unrestricted net position of $6,814,503 at December 31, 2014.

5. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2014:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and cash equivalents	$ 7,568,574	$ 2,002,139	$ 9,570,713
Investments	10,782,877	504,957	11,287,834
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents	1,695,485	-	1,695,485
Total	$ 20,046,936	$ 2,507,096	$ 22,554,032

Deposits and investments	
Bank deposits:	
Checking and savings accounts	$ 11,234,108
Pooled certificates of deposit:	
Due within one year	2,250,000
Due within one to five years	49,000
Due within six to ten years	1,644,948
Investments, at fair value	7,368,886
Cash on hand	7,090
Total	$ 22,554,032

Investment and deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the County's deposits might not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, $11,813,805 of the County's bank balance of $14,003,281 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of the investments or collateral securities that are in possession of an outside party. The County does not have a policy for investment custodial credit risk. As of December 31, 2014, the County has no custodial credit risk exposure for any of its investments. Money market funds are unrated or are not available from the rating agency.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The County has no investment policy that would further limit its investment choices. Listed below are the County's investments subject to credit risk. The credit ratings are established by Standard & Poor's.

Investments	Credit Rating	Fair Value
Municipal securities	AA+	$ 252,605
U.S. Government agencies	AA+	7,116,281
Total		$ 7,368,886

Concentration of credit risk. The County's investment policy places no limit on the amount the County may invest in any one issuer, however, not more than 5% was invested with any one issuer.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County does not have a formal investment policy that would further limit investment maturities. The investments subject to interest rate risk are as follows:

	Investment Maturities (Fair Value)				
Investment Type	Less than one year	1-5 years	6-10 years	More than 10 years	Total
Municipal securities	$ -	$ -	$ 252,605	$ -	$ 252,605
U.S. Government agencies	-	1,504,864	483,550	5,127,867	7,116,281
	$ -	$ 1,504,864	$ 736,155	$ 5,127,867	$ 7,368,886

6. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	$ 311,886	$ 152,594	$ 3,089,293
Less: Allowance for uncollectible accounts	-	-	(1,386,000)
Taxes	3,613,884	1,378,384	2,526,773
Loans	2,144,696	-	-
Interest	-	167,083	-
Due from other governmental units	1,313,097	80,883	-
	$ 7,383,563	$ 1,778,944	$ 4,230,066

Loans receivable - Housing Commission Special Revenue Fund

The amount recorded as loans receivable represent long-term mortgage notes in the Housing Commission Special Revenue 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 inflows of resources. Revenue is 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, 2014, the total amount of outstanding loans were $2,144,696.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	$ 461,681	$ 93,360	$ 222,091
Accrued liabilities	118,216	70,988	36,500
Due to other governments	13,209	-	6,443
Accrued interest on long-term debt	22,784	-	-
	$ 615,890	$ 164,348	$ 265,034

8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2014, was as follows:

Due to and from primary government funds

	Due from Other Funds	Due to Other Funds
General Fund	$ 62,000	$ -
Nonmajor governmental funds	7,575	7,575
Timing difference	(62,000)	-
	$ 7,575	$ 7,575

The timing difference is a result of the Bus System Enterprise Fund having a fiscal year-end that is different from the County's year-end.

Notes to Financial Statements

Interfund advances - primary government

	Advance to Other Funds	Advance From Other Funds
Public Improvement Fund	$ 195,304	$ -
Animal Control	-	131,932
Airport	-	63,372
	$ 195,304	$ 195,304

Advances to and from component units

	Advance to Other Funds	Advance From Other Funds
Public Improvement Fund	$ 419,956	$ -
Ambulance	-	419,956
	$ 419,956	$ 419,956

These 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.

In addition, an interfund balance of $63,372 existed between governmental activities and business-type activities. This resulted from a long-term advance between the Public Improvements Nonmajor Governmental Fund and the Airport Enterprise Fund.

For the year ended December 31, 2014, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	$ 816,949	$ 1,095,163
Housing Commission	121,771	122,148
Nonmajor governmental funds	1,009,989	581,782
Delinquent Tax Fund	101	200,000
Airport	224,532	-
Nonmajor enterprise funds	31,101	35,075
Internal service funds	405	5,673
	$ 2,204,848	$ 2,039,841

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

Notes to Financial Statements

9. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 1,827,962	$ -	$ -	$ 1,827,962
Construction in progress	1,768	51,476	-	53,244
	1,829,730	51,476	-	1,881,206
Capital assets, being depreciated:				
Buildings	14,960,702	32,095	-	14,992,797
Furniture and fixtures	514,550	-	-	514,550
Equipment:				
Data handling	1,204,467	17,759	-	1,222,226
Other equipment	2,164,669	31,423	(56,100)	2,139,992
Vehicles	1,240,627	140,192	-	1,380,819
Infrastructure	25,380	-	-	25,380
	20,110,395	221,469	(56,100)	20,275,764
Less accumulated depreciation for:				
Buildings	(8,724,694)	(540,375)	-	(9,265,069)
Furniture and fixtures	(312,621)	(39,942)	-	(352,563)
Equipment:				
Data handling	(1,113,689)	(15,027)	-	(1,128,716)
Other equipment	(973,224)	(17,506)	56,100	(934,630)
Vehicles	(1,125,290)	(57,741)	-	(1,183,031)
Infrastructure	(9,863)	(1,409)	-	(11,272)
	(12,259,381)	(672,000)	56,100	(12,875,281)
Total capital assets being depreciated, net	7,851,014	(450,531)	-	7,400,483
Governmental activities capital assets, net	$ 9,680,744	$ (399,055)	$ -	$ 9,281,689

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type Activities				
Capital assets, not being depreciated:				
Land	$ 99,998	$ -	$ -	$ 99,998
Capital assets, being depreciated:				
Buildings	2,635,361	-	-	2,635,361
Furniture and fixtures	6,000	-	-	6,000
Vehicles	2,651,675	-	-	2,651,675
Equipment	494,603	10,000	-	504,603
Infrastructure	12,288,302	-	-	12,288,302
	18,075,941	10,000	-	18,085,941
Less accumulated depreciation for:				
Buildings	(885,366)	(116,252)	-	(1,001,618)
Furniture and fixtures	(6,000)	-	-	(6,000)
Vehicles	(1,909,486)	(212,962)	-	(2,122,448)
Equipment	(371,620)	(13,300)	-	(384,920)
Infrastructure	(5,449,500)	(492,240)	-	(5,941,740)
	(8,621,972)	(834,754)	-	(9,456,726)
Total capital assets being depreciated, net	9,453,969	(824,754)	-	8,629,215
Business-type activities capital assets, net	$ 9,553,967	$ (824,754)	$ -	$ 8,729,213

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

Depreciation of governmental activities by function	
General government	$ 285,015
Public safety	127,952
Recreation and culture	259,033
	$ 672,000
Depreciation of business-type activities by function	
Bus System 9/30/2014	$ 250,964
Airport	571,487
University Center Metropolitan Area Network	12,303
	$ 834,754

Notes to Financial Statements

Discretely presented component units

Capital assets activity for the Road Commission component unit for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit - Road Commission				
Capital assets, not being depreciated:				
Land and improvements	$ 170,157	$ -	$ -	$ 170,157
Capital assets, being depreciated:				
Buildings	3,934,836	-	-	3,934,836
Road equipment	5,841,862	210,875	(3,370)	6,049,367
Shop equipment	97,786	4,954	(1,547)	101,193
Office equipment	43,001	6,214	-	49,215
Engineer's equipment	16,975	-	(3,413)	13,562
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	45,128,596	2,760,905	-	47,889,501
	56,894,687	2,982,948	(8,330)	59,869,305
Less accumulated depreciation for:				
Buildings	(1,548,880)	(87,899)	-	(1,636,779)
Road equipment	(5,087,471)	(295,249)	-	(5,382,720)
Shop equipment	(91,262)	(2,416)	1,547	(92,131)
Office equipment	(38,043)	(4,426)	-	(42,469)
Engineer's equipment	(15,268)	(465)	3,413	(12,320)
Yard and storage equipment	(1,800)	-	-	(1,800)
Traffic signals	(35,013)	(2,984)	-	(37,997)
Infrastructure - bridges	(624,076)	(70,946)	-	(695,022)
Infrastructure - roads	(25,006,371)	(2,135,648)	-	(27,142,019)
	(32,448,184)	(2,600,033)	4,960	(35,043,257)
Total capital assets being depreciated, net	24,446,503	382,915	(3,370)	24,826,048
Road Commission capital assets, net	$ 24,616,660	$ 382,915	$ (3,370)	$ 24,996,205

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit - Otsego County Ambulance Corporation				
Capital assets being depreciated:				
Buildings	$ 725,000	$ -	$ -	$ 725,000
Other equipment	586,115	27,631	-	613,746
Vehicles	1,732,157	124,775	-	1,856,932
	3,043,272	152,406	-	3,195,678
Less accumulated depreciation for:				
Buildings	(493,000)	(29,000)	-	(522,000)
Other equipment	(479,991)	(25,619)	-	(505,610)
Vehicles	(985,550)	(114,955)	-	(1,100,505)
	(1,958,541)	(169,574)	-	(2,128,115)
Otsego County Ambulance Corp capital assets, net	$ 1,084,731	$ (17,168)	$ -	$ 1,067,563

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit - Otsego County University Center				
Capital assets being depreciated:				
Buildings	$ 144,125	$ -	$ -	$ 144,125
Leasehold improvements	24,854	-	-	24,854
Furniture and fixtures	323,707	-	-	323,707
Data handling equipment	542,640	22,028	-	564,668
	1,035,326	22,028	-	1,057,354
Less accumulated depreciation for:				
Buildings	(43,354)	(10,574)	-	(53,928)
Leasehold improvements	(24,853)	(8,285)	-	(33,138)
Furniture and fixtures	(221,359)	(20,150)		(241,509)
Data handling equipment	(526,791)	(10,012)	-	(536,803)
	(816,357)	(49,021)	-	(865,378)
Otsego County University Center capital assets, net	$ 218,969	$ (26,993)	$ -	$ 191,976

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit - Otsego County Commission on Aging				
Capital assets being depreciated:				
Leasehold improvements and equipment	$ 140,189	$ -	$ -	$ 140,189
Less accumulated depreciation for:				
Leasehold improvements and equipment	(124,906)	(15,283)	-	(140,189)
Otsego County Commission on Aging capital assets, net	$ 15,283	$ (15,283)	$ -	$ -

10. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
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%.	$ 60,000	$ -	$ 60,000	$ -	$ -
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%.	1,480,000	-	185,000	1,295,000	210,000
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	-	47,047	433,879	40,539

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Otsego County Building Authority Series 2011 Bonds, issued on behalf of Otsego County Road Commission, maturing serially through 2031 in annual amounts ranging from $35,000 to $65,000 and at interest rates from 3.25% to 5.0%.	825,000	-	30,000	795,000	35,000
Total installment debt	2,845,926	-	322,047	2,523,879	285,539
Accrued compensated absences	169,306	12,021	12,021	169,306	-
Total governmental activities	$ 3,015,232	$ 12,021	$ 334,068	$ 2,693,185	$ 285,539

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Discretely Presented Component Unit					
Road Commission					
Otsego County Building Authority Series 2011 Bonds, issued on behalf of Otsego County Road Commission, maturing serially through 2031 in annual amounts ranging from $35,000 to $65,000 and at interest rates from 3.25% to 5.0%.	$ 825,000	$ -	$ 30,000	$ 795,000	$ 35,000
Installment purchase agreements	460,642	-	151,727	308,915	153,534
Total installment debt	1,285,642	-	181,727	1,103,915	188,534
Accrued compensated absences	75,843	48,476	-	124,319	-
Total road commission component unit	$ 1,361,485	$ 48,476	$ 181,727	$ 1,228,234	$ 188,534

Notes to Financial Statements

Installment purchase agreements

On July 15, 2013, the Otsego County Road Commission entered into an Installment Purchase Agreement with Grand Traverse Diesel Services, Inc. for the purchase of two 2014 Western Star 4700 SF Plow Trucks in the amount of $251,908. The agreement requires three annual payments of $87,691 starting July 15, 2014 with interest accruing at 2.20%.

On December 13, 2013, the Otsego County Road Commission entered into a second installment purchase agreement with Truck and Trailer Specialists of Boyne Falls, Inc. for the purchase of two 2013 Western Star 4900 SB Plow Trucks in the amount of $208,734. The Agreement requires three annual principal payments of $69,578 starting July 15, 2014 plus interest paid annually at a rate of 2.20%.

Discretely Presented Component Unit					
Ambulance Corporation					
Installment purchase agreement for medical equipment from Phillips Medical, due in annual installments of $13,320 including interest charged at 14.88%. Final payment due in 2016.	$ 30,142	$ -	$ 13,320	$ 16,822	$ 10,221

Annual debt service requirements to maturity for long-term debt included in governmental activities are as follows:

Year Ended December 31,	Principal	Interest
2015	$ 250,539	$ 51,008
2016	246,147	44,175
2017	241,765	36,483
2018	262,391	27,457
2019	263,027	18,021
2020-2024	465,010	15,025
	$ 1,728,879	$ 192,169

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

Installment purchase agreements		
Year Ended December 31,	Principal	Interest
2015	$ 153,534	$ 6,796
2016	155,381	3,418
	$ 308,915	$ 10,214

Bonds payable	
Year Ended December 31,	Amount
2015	$ 69,163
2016	67,938
2017	66,712
2018	65,488
2019	69,175
2020 - 2024	336,711
2025 - 2029	337,000
2030 - 2031	136,500
Total Payments	1,148,687
Less Interest and Fees	(353,687)
	$ 795,000

11. ACCRUED COMPENSATED ABSENCES

Primary Government

Substantially all County employees are entitled to certain vacation and sick pay benefits that accrue and vest under various parameters including individual labor contracts. Accrued benefits for all governmental fund types are reported as long-term debt.

Vested Employee Benefits Payable - Bus System (Enterprise Fund)

Vacation leave is accrued every pay period. Employees can accumulate a maximum of their base at any given time. Personal leave is earned at the beginning of the calendar year at a rate of 56 hours per full-time employee and 35 hours per part-time employee per year. Personal leave is paid out for up to 28 hours for full time employees and 17.5 hours for part-time employees. Compensated absences amounted to $36,198 at December 31, 2014.

Road Commission - Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2014 at current wage rates amounted to $124,319 and are reflected in the long-term debt. Sick leave is not vested and accordingly is not accrued.

12. OPERATING LEASES

Lease Commitments - Commission on Aging Discretely Presented Component Unit

The Commission on Aging leases office and activity space from Alpine Alten Zimmer. The future rent payments will approximate $28,000 per year, with a rent increase not to exceed 1% per year through December 31, 2029.

Notes to Financial Statements

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

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

13. RISK MANAGEMENT

Primary Government

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

The County makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund 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 funds 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, 2014, the balance of the County's member retention was $249,263.

Coverage	Self-Insured Retention
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 $100,00
Employee Benefits	Commercial Insurance Provider

Notes to Financial Statements

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 Sate of Michigan under Chapter 6, Section 418.611, Paragraph (2) of the Workers' Disability Compensation Act of 1969, as amended.

At December 31, 2014 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.

Component Unit - Road Commission

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the "Pool") established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporation (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, 2014, 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 Corporation'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, 2014, there were no claims that exceeded insurance coverage. The Ambulance Corporation did not have any significant reduction in insurance coverage from previous years.

Notes to Financial Statements

Component Unit - 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.

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. Health insurance and workers' compensation is obtained through commercial insurance providers.

At December 31, 2014, there were no claims that exceeded insurance coverage. The Sportsplex did not have any significant reduction in insurance coverage from previous years.

14. PROPERTY TAXES

The County levies property tax 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 2013 ad valorem tax is levied and collectible on December 1, 2013 and 2014 ad valorem tax is levied and collectible on July 1, 2014, 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 revolving funds within one year.

The December 1, 2014 taxable valuation of the County of Otsego totaled $1,141,288,013, on which ad valorem taxes were levied as follows:

Source	Millage Rate
Animal Control	0.3000
Commission on Aging	1.0000
Ambulance	0.4000
EMS Building	1.0000
Bus System	0.2500
Parks and Recreation	0.1875
Road Projects	1.0000
Library	0.4000
Recycling	0.2500
Sportsplex	0.2500
Sportsplex Building	0.1875
M-TEC	0.6464
University Center	0.5569

The July 1, 2014 taxable valuation of the County of Otsego totaled $1,164,891,144, on which ad valorem taxes levied consisted of 4.0502 mills for the General Fund, this amount is recognized in the General Fund.

Notes to Financial Statements

15. CONTINGENT LIABILITIES

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

16. BENEFIT PLANS

Primary Government

Defined Benefit Pension Plan

Plan Description. The County's defined benefit pension plan provides 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 County participates in the Municipal Employees Retirement System of Michigan ("MERS"), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

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, 2013.

Funding Policy. The County is required to contribute at an actuarially determined rate; 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 contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County, depending on the MERS contribution program adopted by the County.

The contribution rate as a percentage of payroll at December 31, 2014 is as follows:

Division Name	Monthly $ Amount or Employer %
General Non-Union	$ 3,503
General Non-Union after 1/1/2009	7.18%
Library Non-Union	9.23%
General Local 214	$ 5,079
General Local 214 Clerical	3,610

Division Name	Monthly $ Amount or Employer %
Clerical Local 214 after 1/1/2012	4.83%
POAM	$ 4,138
POAM after 1/1/2011	5.15%
Elected/Appointed Supervisors	$ 15,858
Elected/Appointed Supervisors after 1/1/2009	6.32%
Court Union	$ 6,823
Court Union after 6/1/2011	4.89%
Sheriff Union	$ 6,995
Sheriff Union New Hire	2.17%
Library Director	8.13%

Annual Pension Cost. For the year ended December 31, 2014, the County's annual MERS pension cost of $636,649 was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2013, actuarial valuation using the entry age actuarial cost method. The significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected annual salary increases of 1%, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, the date of the last actuarial valuation, was 25 years.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
2012	$ 705,702	100%	-
2013	727,962	100%	-
2014	636,649	100%	-

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the Plan was 71 percent funded. The actuarial accrued liability for benefits was $18,915,850, and the actuarial value of assets was $13,510,595, resulting in an unfunded actuarial accrued liability (UAAL) of $5,405,255. The covered payroll (annual payroll of active employees covered by the Plan) was $4,080,889, and the ratio of the UAAL to the covered payroll was 132.5 percent.

The schedule of funding progress, presented as RSI 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 liability for benefits.

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.

Notes to Financial Statements

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; 3 years - 25%; 4 years - 50%; 5 years - 75%; 6 years - 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 Supervisors after 01/01/09	7.14%	Clerical 214	2.98%
General Non Union after 01/01/09	7.17%	Bus 01/01/11	8.01%
POAM 01/01/11	5.98%		

Road Commission - Component Unit

Defined Benefit Pension Plan

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.

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% 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, 2014. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, 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, 2014 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

Actuarial accrued liability for:	
Retired participants and beneficiaries currently receiving benefits	$ 6,643,460
Vested terminated participants not yet receiving benefits	275,909
Active members	3,770,552
Total actuarial accrued liability	10,689,921
Net position available for benefits, at actuarial value	6,567,637
Unfunded actuarial accrued liability	$ 4,122,284

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, 2014 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 26 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
2012	$ 439,412	100%	-
2013	436,457	100%	-
2014	486,151	100%	-

The Road Commission was required to contribute $366,151 and elected to pay an additional $120,000 for the year ended December 31, 2014. Payments were based on contribution calculations 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.

See separately issued independent auditor's report for required supplementary information with respect to the Road Commission's defined benefit pension plan.

Notes to Financial Statements

17. DEFERRED COMPENSATION PLAN

Primary Government

Otsego County offers its employees a deferred compensation plan created in accordance with 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. GASB 32 does not require inclusion of the deferred compensation balances in a trust and agency fund.

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.

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 employee's elected salary contribution.

18. OTHER POSTEMPLOYMENT BENEFITS

Primary government

Plan Description. Otsego County administers a single-employer defined benefit healthcare plan (the "Plan"). The plan provides healthcare benefits for eligible employees upon retirement, through the County's group health insurance plan, which covers both active and retired members. The benefits are provided under the collective bargaining agreement for union employees and by personnel policies for nonunion employees. At December 31, 2014, the date of the last plan valuation, the County's healthcare plan covered 41 members 19 active plan members and 22 retirees receiving benefits).

Funding policy. Contribution requirements also are negotiated between the County and employees. The County contributes 80% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2014, the County contributed $92,047 to the plan.

Notes to Financial Statements

Annual OPEB Cost and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 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 amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	$ 230,268
Interest on net OPEB obligation	75,612
Adjustment to annual required contribution	(119,211)
Net OPEB cost (expense)	186,669
Contributions made	(92,047)
Increase in net OPEB	94,622
Net OPEB obligation, beginning of year	1,890,308
Net OPEB obligation, end of year	$ 1,984,930

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 383,583	31%	$ 1,581,161
12/31/2013	390,240	21%	1,890,308
12/31/2014	186,669	49%	1,984,930

Funded Status and Funding Progress. As of December 31, 2014, the actuarial accrued liability for benefits was $2,537,155, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was $745,953, and the ratio of the UAAL to the covered payroll was 340.1 percent.

Actuarial valuation of an ongoing plan involves 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 calculations.

Notes to Financial Statements

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The 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, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0% 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 9% initially, reduced by decrements to an ultimate rate of 5% after four years. Both rates included percent inflation assumptions of 9%. 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.

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

Road Commission - Component Unit

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 GASB Statement No. 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.

Funding Policy. 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.

Funding Progress. As of December 31, 2014, the Road Commission has determined an estimated cost of providing post employment benefits through the alternative measurement method of calculation as of December 31, 2014. 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 costs each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

Notes to Financial Statements

The Road Commission's computed contribution and actual fundings is summarized as follows:

Annual required contribution (ARC)	$ 932,139
Interest on net OPEB obligation	289,272
Net OPEB cost (expense)	1,221,411
Contributions made	(314,490)
Increase in net OPEB obligation	906,921
Net OPEB obligation, beginning of year	7,231,810
Net OPEB obligation, end of year	$ 8,138,731

Three-Year Trend Information

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 1,542,163	25.10%	$ 5,987,820
12/31/2013	1,588,361	21.68%	7,231,810
12/31/2014	1,221,411	25.75%	8,138,731

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.

See separately issued independent auditor's report for required supplementary information with respect to the Road Commission's other postemployment benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The 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.

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.

Health Costs. The 2014 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 2013 version of the National Health Expenditures (NHE) released in 2014, Centers for Medicare & Medicaid Services, Office of the Actuary.

Notes to Financial Statements

Other. 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 grown over the long-term at the same rate as inflation.

NOTES TO FINANCIAL STATEMENTS

19. FUND BALANCES - GOVERNMENTAL FUNDS

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

	General Fund	Housing Commission	M-TEC	EMS Building	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable	$ 21,542	$ -	$ -	$ -	$ 615,260	$ 636,802
Restricted for:						
Housing projects	-	169,506	-	-	-	169,506
Public safety	-	-	-	-	1,347,719	1,347,719
Health and welfare	-	-	-	-	121,776	121,776
Recreation and culture	-	-	-	-	659,644	659,644
State revenue sharing	-	-	-	-	136,622	136,622
Debt service	-	-	-	-	186,123	186,123
Recycling	-	-	-	-	147,207	147,207
Register of Deeds	-	-	-	-	52,378	52,378
Law Library	-	-	-	-	12,082	12,082
Bradford Lake Dam	-	-	-	-	20,068	20,068
Pre-disaster Mitigation	-	-	-	-	2,701	2,701
Total restricted	-	169,506	-	-	2,686,320	2,855,826
Committed for:						
Work Camp	-	-	-	-	142,267	142,267
Friend of the Court	-	-	-	-	113,275	113,275
Child Care Probate	-	-	-	-	205,163	205,163
Equipment	-	-	-	-	74,661	74,661
Public improvements	-	-	-	-	2,455,412	2,455,412
Total committed	-	-	-	-	2,990,778	2,990,778
Assigned for:						
Legal defense	124,457	-	-		-	124,457
Soldiers' relief	23,207	-	-		-	23,207
Total assigned	147,664	-	-	-	-	147,664
Unassigned (deficit)	3,960,658	-	(82,456)	-	-	3,878,202
Total fund balances, governmental funds	$ 4,129,864	$ 169,506	$ (82,456)	$ -	$ 6,292,358	$ 10,509,272

NOTES TO FINANCIAL STATEMENTS

20. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION

The composition of net investment in capital assets as of December 31, 2014, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	$ 1,881,206	$ 99,998	$ 170,157
Capital assets being depreciated, net	7,400,483	8,629,215	26,085,587
	9,281,689	8,729,213	26,255,744
Related debt:			
Total installment debt	2,523,879	-	1,103,915
Less: Otsego County Road Commission bonds	(795,000)	-	-
	1,728,879	-	1,103,915
Net investment in capital assets	$ 7,552,810	$ 8,729,213	$ 25,151,829

The composition of restricted net position as of December 31, 2014, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Net position restricted for:			
Housing projects	$ 169,506	$ -	$ -
Public safety	1,347,719	-	-
Health and welfare	121,776	-	-
Recreation and culture	659,644	-	-
State revenue sharing	136,622	-	-
Debt service	163,339	-	-
Recycling	147,207	-	-
Register of Deeds	52,378	-	-
Law Library	12,082	-	-
Bradford Lake Dam	20,068	-	-
Pre-disaster Mitigation	2,701	-	-
University Center	-	-	343,145
Commission on Aging	-	-	44,000
Total restricted net position	$ 2,833,042	$ -	$ 387,145

21. RESTATEMENTS

Beginning fund balance of the General Fund and beginning net position of governmental activities were increased by $205,728 as a result of recording delinquent taxes receivable that were not properly recorded in prior years. As a result of this misstatement, prior year net income was understated by $205,728.

Beginning fund balance of the Library Special Revenue Fund and beginning net position of governmental activities were decreased by $30,574 as a result of adjusting delinquent taxes receivable that were not properly recorded in prior years. As a result of this misstatement, prior year net income was overstated by $30,574.

Beginning fund balance of the Animal Control Special Revenue Fund was decreased by $131,932 as a result of recording interfund advances that were not properly recorded in prior years, which resulted in an overstatement of prior year net income by $131,932.

Beginning fund balance of the Public Improvement Capital Projects Fund and beginning net position of governmental activities was increased by $417,340 as a result of recording interfund advances that were not properly recorded in prior years, which resulted in an understatement of prior year net income by $417,340.

NOTES TO FINANCIAL STATEMENTS

The Airport Fund was reported as a special revenue governmental fund for year ended December 31, 2013. It was determined that it should be presented as an enterprise fund for the year ended December 31, 2014 resulting in a decrease to beginning net position of governmental activities of $8,363,712. Also, interfund advances between the Airport Fund and the Public Improvement Fund were not appropriately recorded in prior years resulting in a decrease to beginning net position of the Airport Fund of $63,372. As a result of this misstatement prior year net income in the Airport Fund was overstated by $63,372. These restatements resulted in a net increase to beginning net position of business-type activities of $8,300,340.

The Airport Special Events Fund was reported as a governmental fund for year ended December 31, 2013 and it was determined that it should be presented as an enterprise fund for the year ended December 31, 2014 resulting in a decrease to beginning net position of governmental activities of $23,137 and a corresponding increase to beginning net position of business-type activities.

Beginning net position of the Delinquent Tax Revolving Fund and business-type activities were increased by $44,683 as a result of recording administration fees receivable that were not properly recorded in prior years. As a result of this misstatement, prior year net income was understated by $44,683.

During the year ended September 30, 2014, a prior period adjustment to restate beginning net position of $208,609 was necessary to adjust actual accumulated depreciation for the Bus System Enterprise Fund. As a result of this misstatement, prior year net income was overstated by $208,609.

For the year ended December 31, 2013, the Commission on Aging was reported as a governmental fund (blended component unit). It was determined that, as of December 31, 2014 the Commission on Aging should be reported as a discretely presented component unit, which resulted in a decrease to beginning net position of governmental activities of $815,852 and a corresponding increase to beginning net position of the discretely presented component units opinion unit.

REQUIRED SUPPLEMENTARY INFORMATION

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information

Employees' Retirement Plan

Schedule of Funding Progress
MERS Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2010	$ 12,086,707	$ 16,602,287	$ 4,515,580	72.8%	$ 4,384,058	103.0%
12/31/2011	12,509,030	17,429,652	4,920,622	71.8%	4,400,424	111.8%
12/31/2014	13,510,595	18,915,850	5,405,255	71.4%	4,080,889	132.5%

Schedule of Employer Contributions
MERS Defined Benefit Pension Plan

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2012	$ 705,072	100%
2013	727,962	100%
2014	636,649	100%

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information

Other Postemployment Benefits Plan (Primary Government)

Schedule of Funding Progress
Other Postemployment Benefits Plan

* Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2008	$ -	$ 3,946,926	$ 3,946,926	0.0%	$ 2,060,811	191.5%
12/31/2011	-	3,742,809	3,741,809	0.0%	1,572,403	238.0%
12/31/2014	-	2,537,155	2,537,155	0.0%	745,953	340.1%

Schedule of Employer Contributions
Other Postemployment Benefits Plan

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2012	$ 386,186	63%
2013	424,314	19%
2014	230,268	40%

* A plan of this size is not required to be valued each year. Additional years of data will be included in future years as revised valuations are necessary.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds
December 31, 2014

	Special Revenue	Capital Projects	Total
Assets			
Cash and cash equivalents	$ 2,419,183	$ 1,900,061	$ 4,319,244
Investments	806,371	407,913	1,214,284
Receivables, net:			
Accounts	105,240	152,150	257,390
Property taxes	1,298,941	213,079	1,512,020
Due from other governments	229,759	-	229,759
Due from other funds	7,575	-	7,575
Advances to other funds		195,304	195,304
Advances to component units	-	419,956	419,956
Total assets	$ 4,867,069	$ 3,288,463	$ 8,155,532
Liabilities			
Accounts payable	$ 132,160	$ 4,712	$ 136,872
Accrued liabilities	28,438	-	28,438
Due to other governments	13,209	-	13,209
Due to other funds	7,575	-	7,575
Advances from other funds	131,932	-	131,932
Unearned revenue	33,128	-	33,128
Total liabilities	346,442	4,712	351,154
Deferred inflows of resources			
Taxes levied for a subsequent period	1,298,941	213,079	1,512,020
Unavailable resources	-	-	-
Total deferred inflows of resources	1,298,941	213,079	1,512,020
Fund balances			
Nonspendable	-	615,260	615,260
Restricted	2,686,320	-	2,686,320
Committed	535,366	2,455,412	2,990,778
Total fund balances	3,221,686	3,070,672	6,292,358
Total liabilities, inflows of resources, and fund balances	$ 4,867,069	$ 3,288,463	$ 8,155,532

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended December 31, 2014

	Special Revenue	Capital Projects	Total
Revenues			
Taxes	$ 1,486,354	$ -	$ 1,486,354
Federal sources	1,067,744	-	1,067,744
State sources	349,596	-	349,596
Local sources	1,000	23,294	24,294
Charges for services	1,432,044	71,840	1,503,884
Fines and forfeits	182,880	-	182,880
Interest and rentals	27,026	35,129	62,155
Other revenue	288,556	15,074	303,630
Total revenues	4,835,200	145,337	4,980,537
Expenditures			
Judicial	457,732	-	457,732
General government	228,033	-	228,033
Public safety	2,129,768	-	2,129,768
Public works	17,901	-	17,901
Health and welfare	682,685	-	682,685
Recreation and culture	1,106,481	-	1,106,481
Debt service:			
Principal	47,047	-	47,047
Interest and fiscal charges	-	-	-
Capital outlay	323,684	237,351	561,035
Total expenditures	4,993,331	237,351	5,230,682
Revenues over (under) expenditures	(158,131)	(92,014)	(250,145)
Other financing sources (uses)			
Transfers in	525,542	484,447	1,009,989
Transfers out	(556,782)	(25,000)	(581,782)
Proceeds from sale of capital assets	1,500	-	1,500
Total other financing sources (uses)	(29,740)	459,447	429,707
Net change in fund balances	(187,871)	367,433	179,562
Fund balances, beginning of year, as restated	3,409,557	2,703,239	6,112,796
Fund balances, end of year	$ 3,221,686	$ 3,070,672	$ 6,292,358

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OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet
Nonmajor Special Revenue Funds
December 31, 2014

	Work Camp	Parks and Recreation	Groen Nature Preserve	Revenue Sharing Reserve	Friend of the Court	Animal Control
Assets						
Cash and cash equivalents	$ 140,307	$ 87,532	$ 50,533	$ 136,622	$ 75,327	$ 67,047
Investments	-	-	-	-	-	370,000
Receivables, net:						
Accounts	-	-	-	-	110	-
Property taxes	-	214,547	-	-	-	342,678
Due from other governments	3,220	-	-	-	53,561	3,843
Due from other funds	-	-	-	-	-	-
Total assets	$ 143,527	$ 302,079	$ 50,533	$ 136,622	$ 128,998	$ 783,568
Liabilities						
Accounts payable	$ 401	$ 3,616	$ 169	$ -	$ 5,867	$ 24,499
Accrued liabilities	859	4,401	1,882	-	9,856	6,483
Due to other governments	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Advances from other funds	-	-	-	-	-	131,932
Unearned revenue	-	-	33,128	-	-	-
Total liabilities	1,260	8,017	35,179	-	15,723	162,914
Deferred inflows of resources						
Taxes levied for a subsequent period	-	214,547	-	-	-	342,678
Fund balances						
Restricted	-	79,515	15,354	136,622	-	277,976
Committed	142,267	-	-	-	113,275	-
Total fund balances	142,267	79,515	15,354	136,622	113,275	277,976
Total liabilities, inflows of resources, and fund balances	$ 143,527	$ 302,079	$ 50,533	$ 136,622	$ 128,998	$ 783,568

Animal Control Forfeited Funds	Recycling Funds	Gypsy Moth Control	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation Fund	Library
$ 8,150	$ 59,643	$ 113,704	$ 114,383	$ 478,758	$ 55,863	$ 254,996
-	88,809	-	-	-	-	342,562
-	-	-	-	185	95	226
-	284,636	-	-	-	-	457,080
-	-	-	71,740	-	5	-
-	-	-	-	-	-	-
$ 8,150	$ 433,088	$ 113,704	$ 186,123	$ 478,943	$ 55,963	$ 1,054,864
$ -	$ 1,245	$ -	$ -	$ 3,709	$ 3,585	$ 36,131
-	-	-	-	2,993	-	(3,122)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,245	-	-	6,702	3,585	33,009
-	284,636	-	-	-	-	457,080
8,150	147,207	113,704	186,123	472,241	52,378	564,775
-	-	-	-	-	-	-
8,150	147,207	113,704	186,123	472,241	52,378	564,775
$ 8,150	$ 433,088	$ 113,704	$ 186,123	$ 478,943	$ 55,963	$ 1,054,864

Continued...

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2014

	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services
Assets						
Cash and cash equivalents	$ 422,768	$ 6,513	$ -	$ 17,765	$ 12,082	$ 506
Investments	-	-	-	-	-	5,000
Receivables, net:						
Accounts	103,604	-	-	-	-	-
Property taxes	-	-	-	-	-	-
Due from other governments	38,459	-	10,276	-	-	-
Due from other funds	7,575	-	-	-	-	-
Total assets	$ 572,406	$ 6,513	$ 10,276	$ 17,765	$ 12,082	$ 5,506
Liabilities						
Accounts payable	$ 819	$ 1,513	$ -	$ -	$ -	$ -
Accrued liabilities	-	-	-	-	-	-
Due to other governments	-	5,000	-	-	-	-
Due to other funds	-	-	7,575	-	-	-
Advances from other funds	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Total liabilities	819	6,513	7,575	-	-	-
Deferred inflows of resources						
Taxes levied for a subsequent period	-	-	-	-	-	-
Fund balances						
Restricted	571,587	-	2,701	17,765	12,082	5,506
Committed	-	-	-	-	-	-
Total fund balances	571,587	-	2,701	17,765	12,082	5,506
Total liabilities, inflows of resources, and fund balances	$ 572,406	$ 6,513	$ 10,276	$ 17,765	$ 12,082	$ 5,506

Child Care Probate	Veteran's Trust	Airport Planning Grant	Equipment Revolving	Bradford Lake Dam	Total
$ 218,182	$ 2,566	$ -	$ 75,868	$ 20,068	$ 2,419,183
-	-	-	-	-	806,371
1,020	-	-	-	-	105,240
-	-	-	-	-	1,298,941
48,655	-	-	-	-	229,759
-	-	-	-	-	7,575
$ 267,857	$ 2,566	$ -	$ 75,868	$ 20,068	$ 4,867,069
$ 49,399	$ -	$ -	$ 1,207	$ -	$ 132,160
5,086	-	-	-	-	28,438
8,209	-	-	-	-	13,209
-	-	-	-	-	7,575
-	-	-	-	-	131,932
-	-	-	-	-	33,128
62,694	-	-	1,207	-	346,442
-	-	-	-	-	1,298,941
-	2,566	-	-	20,068	2,686,320
205,163	-	-	74,661	-	535,366
205,163	2,566	-	74,661	20,068	3,221,686
$ 267,857	$ 2,566	$ -	$ 75,868	$ 20,068	$ 4,867,069

Concluded

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2014

	Work Camp	Parks and Recreation	Groen Nature Preserve	Revenue Sharing Reserve	Friend of the Court	Animal Control
Revenues						
Taxes	$ -	$ 208,225	$ -	$ -	$ -	$ 335,529
Federal sources	-	-	-	-	314,309	-
State sources	4,960	-	-	-	31,902	-
Local sources	-	-	-	-	-	-
Charges for services	60,128	155,071	-	-	33,680	49,497
Fines and forfeits	-	-	-	-	-	365
Interest and rentals	-	-	-	4,958	-	3,584
Other revenue	862	24,843	64,644	-	-	16,838
Total revenues	65,950	388,139	64,644	4,958	379,891	405,813
Expenditures						
Judicial	-	-	-	-	457,732	-
General government	-	-	-	-	-	-
Public safety	108,753	-	-	-	-	379,843
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	394,349	56,382	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Capital outlay	-	44,072	-	-	-	21,963
Total expenditures	108,753	438,421	56,382	-	457,732	401,806
Revenues over (under) expenditures	(42,803)	(50,282)	8,262	4,958	(77,841)	4,007
Other financing sources (uses)						
Transfers in	56,251	753	-	-	142,445	905
Transfers out	-	-	-	(489,794)	-	-
Proceeds from sale of capital assets	-	-	-	-	-	1,500
Total other financing sources (uses)	56,251	753	-	(489,794)	142,445	2,405
Net change in fund balances	13,448	(49,529)	8,262	(484,836)	64,604	6,412
Fund balances, beginning of year, as restated	128,819	129,044	7,092	621,458	48,671	271,564
Fund balances, end of year	$ 142,267	$ 79,515	$ 15,354	$ 136,622	$ 113,275	$ 277,976

Animal Control Forfeited Funds	Recycling Fund	Gypsy Moth Control	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation Fund	Library
$ -	$ 286,713	$ -	$ 204,699	$ -	$ -	$ 451,188
-	-	-	-	-	-	-
-	-	-	-	-	-	16,371
-	-	-	-	-	-	-
-	-	-	-	468,007	36,266	-
-	-	-	-	-	-	182,515
-	844	318	-	-	-	16,221
-	2,026	-	-	44	-	30,033
-	289,583	318	204,699	468,051	36,266	696,328
-	-	-	-	-	-	-
-	198,140	-	-	-	29,893	-
-	-	-	-	330,769	-	-
-	-	-	-	-	-	-
-	-	12,848	-	-	-	-
-	-	-	-	-	-	655,750
-	-	-	47,047	-	-	-
-	-	-	-	23,139	-	-
-	198,140	12,848	47,047	353,908	29,893	655,750
-	91,443	(12,530)	157,652	114,143	6,373	40,578
-	-	-	-	304	-	-
-	-	-	-	(10,000)	(9,242)	-
-	-	-	-	-	-	-
-	-	-	-	(9,696)	(9,242)	-
-	91,443	(12,530)	157,652	104,447	(2,869)	40,578
8,150	55,764	126,234	28,471	367,794	55,247	524,197
$ 8,150	$ 147,207	$ 113,704	$ 186,123	$ 472,241	$ 52,378	$ 564,775

Continued...

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2014

	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services
Revenues						
Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Federal sources	-	729,148	2,692	-	-	-
State sources	-	-	-	-	-	-
Local sources	-	-	-	-	-	-
Charges for services	620,558	-	-	8,837	-	-
Fines and forfeits	-	-	-	-	-	-
Interest and rentals	824	-	-	-	-	45
Other revenue	103,604	-	9	-	880	6,980
Total revenues	724,986	729,148	2,701	8,837	880	7,025
Expenditures						
Judicial	-	-	-	-	-	-
General government	-	-	-	-	-	-
Public safety	577,632	729,148	-	3,623	-	-
Public works	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	7,759
Recreation and culture	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Capital outlay	81,280	-	-	-	-	-
Total expenditures	658,912	729,148	-	3,623	-	7,759
Revenues over (under) expenditures	66,074	-	2,701	5,214	880	(734)
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	(22,300)	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-
Total other financing sources (uses)	(22,300)	-	-	-	-	-
Net change in fund balances	43,774	-	2,701	5,214	880	(734)
Fund balances, beginning of year, as restated	527,813	-	-	12,551	11,202	6,240
Fund balances, end of year	$ 571,587	$ -	$ 2,701	$ 17,765	$ 12,082	$ 5,506

Child Care Probate	Veteran's Trust	Airport Planning Grant	Equipment Revolving	Bradford Lake Dam	Total
$ -	$ -	$ -	$ -	$ -	$ 1,486,354
5,205	-	12,390	4,000	-	1,067,744
280,788	15,575	-	-	-	349,596
-	-	1,000	-	-	1,000
-	-	-	-	-	1,432,044
-	-	-	-	-	182,880
-	-	-	232	-	27,026
37,793	-	-	-	-	288,556
323,786	15,575	13,390	4,232	-	4,835,200
-	-	-	-	-	457,732
-	-	-	-	-	228,033
-	-	-	-	-	2,129,768
-	-	17,901	-	-	17,901
645,752	16,326	-	-	-	682,685
-	-	-	-	-	1,106,481
-	-	-	-	-	47,047
-	-	-	153,230	-	323,684
645,752	16,326	17,901	153,230	-	4,993,331
(321,966)	(751)	(4,511)	(148,998)	-	(158,131)
235,109	-	-	89,775	-	525,542
-	-	(7,964)	(17,482)	-	(556,782)
-	-	-	-	-	1,500
235,109	-	(7,964)	72,293	-	(29,740)
(86,857)	(751)	(12,475)	(76,705)	-	(187,871)
292,020	3,317	12,475	151,366	20,068	3,409,557
$ 205,163	$ 2,566	$ -	$ 74,661	$ 20,068	$ 3,221,686

Concluded

Combining Balance Sheet
Nonmajor Capital Projects Funds
December 31, 2014

	Public Improvements	Library Building	Court Restoration Building	Airport Construction
Assets				
Cash and cash equivalents	$ 701,155	$ 433,925	$ 58,465	$ 169,592
Investments	300,000	107,913	-	-
Receivables, net:				
Accounts	152,150	-	-	-
Property taxes	-	-	-	-
Advances to other funds	195,304	-	-	-
Advances to component units	419,956	-	-	-
Total assets	$ 1,768,565	$ 541,838	$ 58,465	$ 169,592
Liabilities				
Accounts payable	$ -	$ -	$ -	$ -
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	-	-
Fund balances				
Nonspendable	615,260	-	-	-
Committed	1,153,305	541,838	58,465	169,592
Total fund balance	1,768,565	541,838	58,465	169,592
Total liabilities, deferred inflows of resources, and fund balances	$ 1,768,565	$ 541,838	$ 58,465	$ 169,592

Groen Capital Projects II	Green Nature Preserve Capital Projects	Sportsplex Building Maintenance	Capital Projects	Total
$ 16,324	$ 216	$ -	$ 520,384	$ 1,900,061
-	-	-	-	407,913
-	-	-	-	152,150
-	-	213,079	-	213,079
-	-	-	-	195,304
-	-	-	-	419,956
$ 16,324	$ 216	$ 213,079	$ 520,384	$ 3,288,463
$ -	$ -	$ -	$ 4,712	$ 4,712
-	-	213,079	-	213,079
-	-	-	-	615,260
16,324	216	-	515,672	2,455,412
16,324	216	-	515,672	3,070,672
$ 16,324	$ 216	$ 213,079	$ 520,384	$ 3,288,463

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects Funds
For the Year Ended December 31, 2014

	Public Improvements	Library Building	Court Restoration Building	Airport Construction
Revenues				
Local sources	$ -	$ -	$ 13,494	$ -
Charges for services	-	-	45,840	26,000
Interest and rentals	26,581	8,548	-	-
Other revenue	-	-	-	-
Total revenues	26,581	8,548	59,334	26,000
Expenditures				
Capital outlay	-	-	83,231	5,023
Revenues over (under) expenditures	26,581	8,548	(23,897)	20,977
Other financing sources (uses)				
Transfers in	-	-	11,482	80,001
Transfers out	-	-	-	(10,000)
Total other financing sources (uses)	-	-	11,482	70,001
Net change in fund balances	26,581	8,548	(12,415)	90,978
Fund balances, beginning of year, as restated	1,741,984	533,290	70,880	78,614
Fund balances, end of year	$ 1,768,565	$ 541,838	$ 58,465	$ 169,592

Groen Capital Projects II	Green Nature Preserve Capital Projects	Sportsplex Building Maintenance	Capital Projects	Total
$ -	$ -	$ -	$ 9,800	$ 23,294
-	-	-	-	71,840
-	-	-	-	35,129
7,400	-	-	7,674	15,074
7,400	-	-	17,474	145,337
52	-	-	149,045	237,351
7,348	-	-	(131,571)	(92,014)
-	-	-	392,964	484,447
-	-	-	(15,000)	(25,000)
-	-	-	377,964	459,447
7,348	-	-	246,393	367,433
8,976	216	-	269,279	2,703,239
$ 16,324	$ 216	$ -	$ 515,672	$ 3,070,672

Combining Statement of Net Position

Nonmajor Enterprise Funds
December 31, 2014

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Assets			
Current assets:			
Cash and cash equivalents	$ 356,649	$ 72,440	$ 67,802
Investments	760,966	-	-
Accounts receivable, net	-	-	4,911
Total current assets	1,117,615	72,440	72,713
Noncurrent assets:			
Capital assets being depreciated, net	-	-	110,683
Total assets	1,117,615	72,440	183,396
Liabilities (all current)			
Accounts payable	615	19,937	5,883
Accrued liabilities	1,324	-	-
Total liabilities	1,939	19,937	5,883
Net position			
Investment in capital assets	-	-	110,683
Unrestricted	1,115,676	52,503	66,830
Total net position	$ 1,115,676	$ 52,503	$ 177,513

Airport Special Events	Jail Commissary	Homestead Audit	Total
$ 13,029	$ 2,974	$ 14,948	$ 527,842
-	-	-	760,966
-	-	-	4,911
13,029	2,974	14,948	1,293,719
-	-	-	110,683
13,029	2,974	14,948	1,404,402
228	1,861	-	28,524
-	-	-	1,324
228	1,861	-	29,848
-	-	-	110,683
12,801	1,113	14,948	1,263,871
$ 12,801	$ 1,113	$ 14,948	$ 1,374,554

OTSEGO COUNTY, MICHIGAN

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

Nonmajor Enterprise Funds
For the Year Ended December 31, 2014

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Operating revenues			
Charges for services	$ 188,662	$ 34,300	$ 125,592
Local sources	-	12,404	-
Total operating revenues	188,662	46,704	125,592
Operating expenses			
Salaries and fringes	46,808	-	-
Contractual services	-	44,209	-
Materials and supplies	3,920	30,366	-
Depreciation	-	-	12,303
Other	2,326	-	121,137
Total operating expenses	53,054	74,575	133,440
Operating income (loss)	135,608	(27,871)	(7,848)
Nonoperating revenues			
Investment earnings	19,800	-	-
Other	15,084	-	-
Total nonoperating revenues	34,884	-	-
Income (loss) before transfers	170,492	(27,871)	(7,848)
Transfers			
Transfers in	101	31,000	-
Transfers out	-	(10,075)	-
Total transfers	101	20,925	-
Change in net position	170,593	(6,946)	(7,848)
Net position, beginning of year as restated	945,083	59,449	185,361
Net position, end of year	$ 1,115,676	$ 52,503	$ 177,513

Airport Special Events	Jail Commissary	Homestead Audit	Total
$ 33,674	$ 10,940	$ 834	$ 394,002
-	-	-	12,404
33,674	10,940	834	406,406
-	-	-	46,808
58,910	-	-	103,119
14,233	17,235	4,280	70,034
-	-	-	12,303
21,452	-	3,088	148,003
94,595	17,235	7,368	380,267
(60,921)	(6,295)	(6,534)	26,139
-	-	1,551	21,351
50,585	-	-	65,669
50,585	-	1,551	87,020
(10,336)	(6,295)	(4,983)	113,159
-	-	-	31,101
-	-	(25,000)	(35,075)
-	-	(25,000)	(3,974)
(10,336)	(6,295)	(29,983)	109,185
23,137	7,408	44,931	1,265,369
$ 12,801	$ 1,113	$ 14,948	$ 1,374,554

Combining Statement of Cash Flows

Nonmajor Enterprise Funds
For the Year Ended December 31, 2014

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Cash flows from operating activities			
Receipts from customers	$ 188,662	$ 46,704	$ 120,681
Payments to suppliers	(53,643)	(64,858)	(115,254)
Net cash provided by (used in) operating activities	135,019	(18,154)	5,427
Cash flows from noncapital financing activities			
Other receipts	15,084	-	-
Operating transfers in	101	31,000	-
Operating transfers out	-	(10,075)	-
Net cash provided by (used in) noncapital financing activities	15,185	20,925	-
Cash flows from investing activities			
Net purchase of investments	(166,947)	-	-
Interest received on investments	19,800	-	-
Net cash provided by (used in) investing activities	(147,147)	-	-
Net increase (decrease) in cash and cash equivalents	3,057	2,771	5,427
Cash and cash equivalents, beginning of year	353,592	69,669	62,375
			-
Cash and cash equivalents, end of year	$ 356,649	$ 72,440	$ 67,802
Cash flows from operating activities			
Operating income (loss)	$ 135,608	$ (27,871)	$ (7,848)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	-	12,303
Change in:			
Accounts receivable	-	-	(4,911)
Accounts payable	(307)	9,717	5,883
Accrued liabilities	(282)	-	-
Net cash provided by (used in) operating activities	$ 135,019	$ (18,154)	$ 5,427

Airport Special Events	Jail Commissary	Homestead Audit	Total
$ 33,774	$ 14,822	$ 834	$ 405,477
(95,412)	(18,644)	(7,377)	(355,188)
(61,638)	(3,822)	(6,543)	50,289
50,585	-		65,669
-	-	-	31,101
-	-	(25,000)	(35,075)
50,585	-	(25,000)	61,695
-	-	-	(166,947)
-	-	1,551	21,351
-		1,551	(145,596)
(11,053)	(3,822)	(29,992)	(33,612)
24,082	6,796	44,940	561,454
-			
$ 13,029	$ 2,974	$ 14,948	$ 527,842
$ (60,921)	$ (6,295)	$ (6,534)	$ 26,139
-	-	-	12,303
100	3,882	-	(929)
(817)	(1,409)	(9)	13,058
-	-	-	(282)
$ (61,638)	$ (3,822)	$ (6,543)	$ 50,289

OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position
Internal Service Funds
December 31, 2014

	Building and Grounds	Administrative Services	Health Care	Total
Assets (all current)				
Cash and cash equivalents	$ 195,330	$ 48,357	$ 493,209	$ 736,896
Accounts receivable, net	4,604	-	692	5,296
Inventories	-	325	-	325
Prepaids	-	-	6,099	6,099
Total assets	199,934	48,682	500,000	748,616
Liabilities (all current)				
Accounts payable	15,645	968	-	16,613
Accrued liabilities	-	3,930	-	3,930
Total liabilities	15,645	4,898	-	20,543
Net position				
Unrestricted	184,289	43,784	500,000	728,073
Total net position	$ 184,289	$ 43,784	$ 500,000	$ 728,073

Combining Statement of Revenues, Expenditures and Changes in Fund Net Position

Internal Service Funds
For the Year Ended December 31, 2014

	Building and Grounds	Administrative Services	Health Care	Total
Operating revenues				
Charges for services	$ 477,828	$ 433,664	$ 1,039,792	$ 1,951,284
Operating expenses				
Salaries and fringes	168	410,485	1,098,060	1,508,713
Contractual services	233,311	-	-	233,311
Materials and supplies	1,320	7,885	-	9,205
Equipment repair and maintenance	19,275	1,341	-	20,616
Utilities	235,617	494	-	236,111
Other	614	8,061	-	8,675
Total operating expenses	490,305	428,266	1,098,060	2,016,631
Operating income (loss)	(12,477)	5,398	(58,268)	(65,347)
Nonoperating revenues				
Investment earnings	-	-	367	367
Other	81	-	-	81
Total nonoperating revenues	81	-	367	448
Income (loss) before transfers	(12,396)	5,398	(57,901)	(64,899)
Transfers				
Transfers in	-	405	-	405
Transfers out	-	-	(5,673)	(5,673)
Total transfers	-	405	(5,673)	(5,268)
Change in net position	(12,396)	5,803	(63,574)	(70,167)
Net position, beginning of year	196,685	37,981	563,574	798,240
Net position, end of year	$ 184,289	$ 43,784	$ 500,000	$ 728,073

Combining Statement of Cash Flows

Internal Service Funds
For the Year Ended December 31, 2014

	Building and Grounds	Administrative Services	Health Care	Total
Cash flows from operating activities				
Internal activity - receipts from other funds	$ 478,523	$ 433,664	$ 1,040,545	$ 1,952,732
Payments to suppliers	(492,535)	(18,712)	-	(511,247)
Payments to employees for services and benefits	(168)	(410,001)	(1,044,535)	(1,454,704)
Net cash provided by (used in) operating activities	(14,180)	4,951	(3,990)	(13,219)
Cash flows from noncapital financing activities				
Other receipts	81	-	-	81
Operating transfers in	-	405	-	405
Operating transfers out	-	-	(5,673)	(5,673)
Net cash provided by (used in) noncapital financing activities	81	405	(5,673)	(5,187)
Cash flows from investing activities				
Interest received on investments	-	-	367	367
Net increase (decrease) in cash and cash equivalents	(14,099)	5,356	(9,296)	(18,039)
Cash and cash equivalents, beginning of year	209,429	43,001	502,505	754,935
Cash and cash equivalents, end of year	$ 195,330	$ 48,357	$ 493,209	$ 736,896
Cash flows from operating activities				
Operating income (loss)	$ (12,477)	$ 5,398	$ (58,268)	$ (65,347)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Change in:				
Accounts receivable	59	-	753	812
Due from other funds	636	-	-	636
Prepaid items	-	-	65,068	65,068
Accounts payable	(2,398)	(931)	(11,543)	(14,872)
Accrued liabilities	-	484	-	484
Net cash provided by (used in) operating activities	$ (14,180)	$ 4,951	$ (3,990)	$ (13,219)

Combining Statement of Fiduciary Assets and Liabilities

Fiduciary Funds
December 31, 2014

	General Agency Fund	Payroll Imprest Fund	Library Penal Fines	Michigan Municipal Risk Management Authority	Total
Assets					
Cash and cash equivalents	$ 1,130,350	$ 277,966	$ 89,362	$ 197,807	$ 1,695,485
Liabilities					
Undistributed tax collections	$ 953,245	$ -	$ -	$ -	$ 953,245
Bonds, restitutions, and payables to others	177,105	277,966	89,362	197,807	742,240
Total liabilities	$ 1,130,350	$ 277,966	$ 89,362	$ 197,807	$ 1,695,485

OTSEGO COUNTY, MICHIGAN

Balance Sheet and Statement of Net Position

University Center Component Unit
December 31, 2014

	University Center	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	$ 634,276	$ -	$ 634,276
Investments	301,156	-	301,156
Receivables, net:			
Accounts	9,201	-	9,201
Taxes	641,515	-	641,515
Capital assets being depreciated, net	-	191,976	191,976
Total assets	$ 1,586,148	191,976	1,778,124
Liabilities			
Accounts payable	$ 44,265	-	44,265
Accrued liabilities	36,500	-	36,500
Unearned revenue	12,543	-	12,543
Total liabilities	93,308	-	93,308
Deferred inflows of resources			
Taxes levied for a subsequent period	636,515	-	636,515
Fund balances			
Restricted	343,145	(343,145)	-
Unassigned	513,180	(513,180)	-
Total fund balances	856,325	(856,325)	-
Total liabilities, deferred inflows of resources and fund balances	$ 1,586,148		
Net position			
Investment in capital assets		191,976	191,976
Restricted		343,145	343,145
Unrestricted		513,180	513,180
Total net position		$ 1,048,301	$ 1,048,301

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities
University Center Component Unit
For the Year Ended December 31, 2014

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Charges for services	$ 231,543	$ -	$ 231,543
Property taxes	629,018	-	629,018
Investment earnings	3,787	-	3,787
Other	38,997	-	38,997
Total revenues	903,345	-	903,345
Expenditures / expenses			
Current:			
Other functions	906,315	26,993	933,308
Change in fund balance / net position	(2,970)	(26,993)	(29,963)
Fund balance / net position, beginning of year	859,295	218,969	1,078,264
Fund balance / net position, end of year	$ 856,325	$ 191,976	$ 1,048,301

SINGLE AUDIT ACT COMPLIANCE

Rehmann

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Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

June 30, 2015

Honorable Members of the
Board of Commissioners
of the County of Otsego, Michigan
Gaylord, Michigan

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 ***Otsego County, Michigan*** (the "County") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 30, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Patrol Car #2	10.766	NEMCSA	N/A	$ 4,000
Aerospace Diversification Planning Project	10.769	Direct	N/A	12,390
Total U.S. Department of Agriculture				16,390
U.S. Department of Housing and Urban Development				
Community Development Block Grant County and Targeted 2011	14.228	MSHDA	MSC-2011-0812-HOA	48,174
Community Development Block Grant Rental Rehab 2011	14.228	MSHDA	MSC-2011-0812-HO	195,100
Community Development Block Grant County and Targeted 2013	14.228	MSHDA	MSC-2013-0812-HOA	5,000
Total U.S. Department of Housing and Urban Development				248,274
U.S. Department of Justice				
Juvenile Accountability Block Grant:				
02/01/2012 to 01/31/2013	16.523	MDHS	JABGN-11-20001	978
02/01/2013 to 01/31/2014	16.523	MDHS	JABGN-12-20001	4,227
Total U.S. Department of Justice				5,205
U.S. Department of Transportation				
HMEP	20.703	MSP	N/A	1,090
U.S. Department of Health and Human Services				
Incentive reimbursement	93.563	MDHS	N/A	48,337
PA CRP Title IV-D - 10/01/2012 to 09/30/2015	93.563	MDHS	CSPA-13-69002	50,209
FOC CRP Title IV-D - 10/01/2012 to 09/30/2015	93.563	MDHS	CSFOC13-69001	265,972
				364,518
PROFC Title IV-E	93.658	MDHS	PRO-FC-11-69001	6,841
Total U.S Department of Health and Human Services				371,359
U.S. Department of Homeland Security				
Marine Safety Grant	97.012	MDNR	N/A	1,000
Police, Emergency Management Division				
Emergency Management Performance Grants				
10/01/2011 to 09/30/2012	97.042	MSP	N/A	6,099
Pre-Disaster Mitigation Grant	97.047	MSP	PDMC-PL-05-MI-2011-009	2,692
2010 Homeland Security Grant	97.067	MSP	N/A	591,314
2012 Homeland Security Grant	97.067	MSP	N/A	137,834
				729,148
Total U.S. Department of Homeland Security				738,939
Total Expenditures of Federal Awards				$ 1,381,257

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Otsego County, Michigan (the "County") under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position or cash flows of the County.

The County's reporting entity is defined in Note 1 of the County's financial statements. The County's financial statements include the operations of the Otsego County Road Commission and the Otsego County Commission on Aging discretely presented component units, and Otsego County Bus System enterprise fund, which received federal awards that are not included in the Schedule for the year ended December 31, 2014, as these entities were separately audited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the County's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The County receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
NEMCSA	Northeast Michigan Community Service Agency, Inc.
MSHDA	Michigan State Housing Development Authority
MDHS	Michigan Department of Human Services
MSP	Michigan State Police
MDNR	Michigan Department of Natural Resources

4. 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, 2014, the Federal aid received and expended by the Airport was $30,400 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.

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

June 30, 2015

Honorable members of the Board of Commissioners
of Otsego County, Michigan
Gaylord, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Otsego County, Michigan*** (the "County"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 30, 2015. Our report includes a reference to other auditors who audited the financial statements of Otsego County Road Commission and Otsego County Commission on Aging discretely presented component units, and Otsego County Bus System enterprise fund, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

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.

Compliance and Other Matters

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

Otsego County, Michigan's Response to Findings

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

Purpose of this Report

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

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Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

June 30, 2015

Honorable members of the Board of Commissioners
of Otsego County, Michigan
Gaylord, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the ***Otsego County, Michigan*** (the "County"), 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's major federal programs for the year ended December 31, 2014. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Otsego County Road Commission and the Otsego County Commission on Aging discretely presented component units, and the Otsego County Bus System enterprise fund. Our audit, described below, did not include the operations of the Otsego County Road Commission or the Otsego County Commission on Aging or Otsego County Bus System because those entities arranged for separate audits in accordance with A-133.

Management's Responsibility

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

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County'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'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's compliance.

Opinion on Each Major Federal Program

In our opinion, the County 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-003. Our opinion on each major federal program is not modified with respect to this matter.

Report on Internal Control Over Compliance

Management of the County 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'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'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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe that 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-004 that we consider to be a significant deficiency.

Purpose of this Report

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.

Rehmann Lohan LLC

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OTSEGO COUNTY, MICHIGAN

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	____ no
Significant deficiency(ies) identified?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified?	X yes	____ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	X yes	____ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
97.067	Homeland Security Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	X yes	____ no

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001 - Material Audit Adjustments/Material Prior Period Audit Adjustments

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

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

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. These adjustments affected a variety of accounts of the primary government and component units which included fund balance, due from other governments, taxes receivable, and long-term debt.

Cause. This condition was caused by the County failing to reconcile several accounts and make necessary adjustments to those accounts.

Effect. As a result of this condition, the County's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. The adjustments noted above have been reviewed by management, posted to the County's records, and are reported correctly in the audited financial statements. However, we recommend that the County strive to strengthen its financial reporting processes by enhancing its review and reconciliation procedures.

View of Responsible Officials. Management agrees with the adjustments proposed by its auditors, and they have been posted in the County's records. The County will improve procedures to ensure the account balances are reviewed and reconciled on a regular basis.

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-002 - Preparation of Financial Statements in Accordance with GAAP

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

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition. As is the case with many smaller and medium-sized entities, the County has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process.

Cause. This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time required for the government to perform this task internally.

Effect. As a result of this condition, the County lacks resources and capacity to prepare financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. We recommend that the County annually assess its financial reporting processes and consider internal preparation of financial reporting process in accordance with GAAP.

View of Responsible Officials. The County will formalize and implement procedures to consider allocating available resources necessary to perform and prepare the financial statements in accordance with GAAP.

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-003 - Incomplete Monitoring of Subrecipients

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Subrecipient Monitoring).

Program. Homeland Security Grant 2011; CFDA Number 97.067, Homeland Security Grant 2012; CFDA Number 97.067.

Criteria. Recipients of federal awards that subgrant funds to other entities are responsible for compliance with requirements related to subrecipient monitoring, as detailed in the OMB Circular A-133 Compliance Supplement. Such requirements include: (1) identifying to the subrecipient the CFDA number, federal awarding agency, and award name and number; (2) monitoring the subrecipient's use of federal awards to provide reasonable assurance that the program is being administered in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved; and (3) ensuring that subrecipients expending $500,000 or more in federal awards have met the audit requirements of OMB Circular A-133 and issuing a management decision on audit findings (if applicable).

Condition. The County did not perform certain required components of subrecipient monitoring, as follows:

- Certain subrecipient audit reports disclosed the incorrect pass-through agency or CFDA number which was not identified by the County. In such instances, the County is required to provide written communication of the error to the subrecipient and specify required corrective action.
- The County lacks a sufficient process for reconciling amounts reported on the subrecipient SEFA to the County's records for the same period (which often varies with the County's fiscal year end).
- No formal plan was in place as to the intended subrecipient monitoring process.

Cause. This condition appears to have been caused by an incomplete understanding of the requirements for monitoring subrecipients.

Questioned Costs. No costs are being questioned as a result of this condition, as we are not aware of any actual unallowable costs or noncompliance at the subrecipient level.

Effect. As a result of this condition, the County did not fully comply with certain compliance requirements of this grant and was subject to the risk that grant funds passed-through and administered by other entities did not comply with federal cost principles or the provisions of OMB Circular A-133. This risk is somewhat mitigated by the fact that subrecipients are required to submit copies of invoices along with their reimbursement requests.

Recommendation. We recommend that the County develop a centralized administrative subrecipient monitoring policy to incorporate the various provisions of OMB Circular A-133. The timing and frequency of onsite procedures can be flexible, but should occur at least annually.

View of Responsible Officials. The County has noted this issue and is taking appropriate internal measures to ensure that all aspects of subrecipient monitoring have been performed.

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2014

No matters were reported.