

County of Otsego, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2010

COUNTY OF OTSEGO, MICHIGAN

BOARD OF COMMISSIONERS

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Treasurer

James D. McBride
Sheriff

Kyle Legel
Prosecuting Attorney

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Otsego's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Commission on Aging, which represents 2% and 10% of the assets and revenues of the Governmental Activities. We did not audit the financial statements of the Otsego County Road Commission, which represent 84% and 62% of the assets and revenues of the Discretely Presented Component Units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts recorded for the Commission on Aging and Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports 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 County of Otsego, Michigan as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2011 on our consideration of the County of Otsego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, schedule of funding progress, and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Otsego's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Otsego. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 10, 2011

Management's Discussion and Analysis

As management of the County of Otsego, we offer readers of the county's financial statements this narrative overview and analysis of the financial activities of the county for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Financial Highlights of the County as a Whole

- The assets of the County of Otsego exceeded its liabilities at the close of the most recent fiscal year by \$36,334,536 (*net assets*). Of this amount, \$12,880,836 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net assets were \$26,977,964.
- Business-type activity net assets were \$9,356,572.
- Component Unit net assets were \$19,983,381.

There were increases of \$1,099,432 and \$1,816 in net assets in the Governmental Activities and Business-Type Activities, respectively. A decrease of \$1,465,670 in net assets was realized in the Component Units.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current Assets	\$ 15,873,611	\$ 16,055,688	\$ 8,221,241	\$ 8,290,680	\$ 24,094,852	\$ 24,346,368
Noncurrent Assets	<u>17,883,010</u>	<u>16,568,456</u>	<u>1,218,603</u>	<u>1,412,975</u>	<u>19,101,613</u>	<u>17,981,431</u>
Total Assets	<u>\$ 33,756,621</u>	<u>\$ 32,624,144</u>	<u>\$ 9,439,844</u>	<u>\$ 9,703,655</u>	<u>\$ 43,196,465</u>	<u>\$ 42,327,799</u>
Current Liabilities	\$ 3,021,506	\$ 3,091,267	\$ 83,272	\$ 348,899	\$ 3,104,778	\$ 3,440,166
Noncurrent Liabilities	<u>3,757,151</u>	<u>3,654,345</u>	<u>-</u>	<u>-</u>	<u>3,757,151</u>	<u>3,654,345</u>
Total Liabilities	<u>6,778,657</u>	<u>6,745,612</u>	<u>83,272</u>	<u>348,899</u>	<u>6,861,929</u>	<u>7,094,511</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	14,778,132	13,201,496	1,220,603	1,384,428	15,998,735	14,585,924
Restricted	7,454,965	7,662,970	-	-	7,454,965	7,662,970
Unrestricted	<u>4,744,867</u>	<u>5,014,066</u>	<u>8,135,969</u>	<u>7,970,328</u>	<u>12,880,836</u>	<u>12,984,394</u>
Total Net Assets	<u>26,977,964</u>	<u>\$ 25,878,532</u>	<u>\$ 9,356,572</u>	<u>\$ 9,354,756</u>	<u>\$ 36,334,536</u>	<u>\$ 35,233,288</u>

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges for Services	\$ 4,353,406	\$ 3,599,182	\$ 1,015,035	\$ 1,253,326	\$ 5,368,441	\$ 4,852,508
Operating Grants and Contributions	2,594,023	1,748,459	809,330	800,226	3,403,353	2,548,685
Capital Grants and Contributions	1,690,375	1,120,172	64,641	275,851	1,755,016	1,396,023
General Revenues						
Property Taxes	7,520,876	8,014,762	302,190	305,128	7,823,066	8,319,890
Unrestricted Investment Earnings (Loss)	257,576	363,727	94,147	(113,612)	351,723	250,115
Other Revenue	629,137	691,495	74,100	61,300	703,237	752,795
Transfers	263,000	13,558	(263,000)	(13,558)	-	-
Total Revenues	<u>17,308,393</u>	<u>15,551,355</u>	<u>2,096,443</u>	<u>2,568,661</u>	<u>19,404,836</u>	<u>18,120,016</u>
Expenses by Program						
Legislative	183,449	188,771	-	-	183,449	188,771
Judicial	1,931,273	1,927,294	-	-	1,931,273	1,927,294
General Government	2,159,000	1,968,993	-	-	2,159,000	1,968,993
Public Safety	3,133,045	3,074,438	-	-	3,133,045	3,074,438
Public Works	1,216,171	557,177	-	-	1,216,171	557,177
Health and Welfare	2,814,322	2,669,202	-	-	2,814,322	2,669,202
Community & Economic Development	1,422,813	1,096,161	-	-	1,422,813	1,096,161
Recreation and Culture	807,801	1,254,132	-	-	807,801	1,254,132
Other	2,365,505	1,589,155	-	-	2,365,505	1,589,155
Interest Unallocated	175,582	150,567	-	-	175,582	150,567
Delinquent Tax Collection	-	-	164,499	144,186	164,499	144,186
Public Transit	-	-	1,728,022	1,728,568	1,728,022	1,728,568
Other Expenses	-	-	202,106	183,507	202,106	183,507
Total Expenses	<u>16,208,961</u>	<u>14,475,890</u>	<u>2,094,627</u>	<u>2,056,261</u>	<u>18,303,588</u>	<u>16,532,151</u>
Changes in Net Assets	1,099,432	1,075,465	1,816	512,400	1,101,248	1,587,865
Net Assets Beginning	<u>25,878,532</u>	<u>24,803,067</u>	<u>9,354,756</u>	<u>8,842,356</u>	<u>35,233,288</u>	<u>33,645,423</u>
Net Assets Ending	<u>26,977,964</u>	<u>\$ 25,878,532</u>	<u>\$ 9,356,572</u>	<u>\$ 9,354,756</u>	<u>\$ 36,334,536</u>	<u>\$ 35,233,288</u>

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Otsego's basic financial statements. These statements are comprised of 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 Otsego County's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of Otsego County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). **Governmental activities** include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, recreation and culture, and other functions. **Business-type activities** include delinquent tax collections, public transit, global positioning system, metropolitan area network, and the operation of an inmate commissary.

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

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

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

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net assets and changes in net assets of the governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The County's net assets at December 31, 2010 totaled \$36,334,536, an increase of \$1,101,248 from the prior year.

The largest portion of the County's net assets, \$15,998,735 (44 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$7,454,965 (21 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$12,880,836 (35 percent) represents *unrestricted net assets* that may be used to meet the County's ongoing obligations to citizens and creditors.

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

The County's overall net assets increased by \$1,101,248 during the current fiscal year. This increase is attributable to various reasons, as described in the following paragraphs:

Governmental Activities – Governmental activities increased the County's net assets by \$1,099,432, which is approximately \$12,300 more than the prior year. This is primarily due to an increase in revenues of approximately \$1,757,000, offset by an increase in expenditures of \$1,745,000.

Business-Type Activities – Business-type activities increased the County's net assets by \$1,816, which is approximately \$510,000 less than the prior year. The addition to net assets was less in the current year, due to decreased revenue of approximately \$200,000 and an increase of transfers, \$250,000 out of the Delinquent Tax Revolving Fund to fund governmental activities. Expenditures also increased approximately \$40,000.

Financial Analysis of the County's Funds

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

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

On December 31, 2010, the County's governmental funds reported combined ending fund balance of \$10,670,655, a decrease of \$415,756 when compared with the prior year. This is primarily attributable to decreases in property tax revenues, partially offset by effectively managing expenditure levels. Of the fund balance amount, \$4,397,673 constitutes *unreserved/undesignated fund balance*, which is available for meeting the County's current obligations.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved/undesignated fund balance of the General Fund was \$1,163,989, with a total fund balance of \$1,173,908. The fund balance of the County's General Fund decreased by \$53,041 during the current fiscal year. This is primarily attributable to decreases in property tax revenue and charge backs from tax tribunal decisions.

The County's M-TEC fund had a total fund balance of \$286, which decreased by \$790 from the prior year.

The County's Housing Commission had an ending fund balance of \$251,537, an increase of \$136,744 from the prior year.

The County's Commission on Aging has an ending fund balance of \$731,296, an increase of \$10,252 from the prior year, due to an increase in grant dollars that must be spent on housing projects and an increase in local revenue sources.

The County's Revenue Sharing Reserve Fund had an ending fund balance of \$1,998,566. This was a new fund beginning in 2004 and was created as a result of Public Act 357 of 2004. PA 357 of 2004 involves a gradual shift of County operating property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of this restricted fund. The decrease in fund balance of approximately \$400,000 represents the allowable expenditure amount for 2010, offset by interest income.

The County's Library Fund had an ending fund balance of \$458,626 which decreased \$210,776 from the prior year. The decrease was the result of a budgeted project to undertake capital improvements to the Library's interior.

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

Unrestricted net assets of the enterprise funds at year end amounted to \$8,135,969. The enterprise funds had an increase in net assets for the year of \$1,816, due primarily to an increase in capital grants received by the Bus System.

Unrestricted net assets of the internal service funds at year end amounted to \$849,082. The internal service funds had an increase in net assets for the year of \$80,186.

Budgetary Highlights

General Fund – Differences between the original and final amended budgets for revenue of the general fund (revenue and other financing sources) resulted in a 1 percent increase (\$70,461).

Differences between the original and final amended budgets for expenditures (expenditures and other financing uses) resulted in a 2 percent increase, (\$16,272).

Overall during the year, General Fund revenues (revenue and other financing sources) were in line with the budgetary estimates but came in lower than anticipated by \$400,535 or 5 percent. Expenditures (expenditures and other financing uses) were below the budgetary estimates. Overall expenditures were under budget by \$374,494 or 5 percent. The greatest variance for both revenues and expenditures was due to the increase in property tax values and efficient spending in County departments.

M-TEC Fund – The M-TEC fund had a favorable variance between the final amended budget and actual expenditures by \$1,172,145 or 59 percent.

Housing Commission Fund – The Housing Commission Fund had a favorable variance between the final amended budget and the actual expenditures by \$278,944 or 35 percent.

Commission on Aging – The Commission on Aging Fund has a favorable variance between the final amended budget and the actual expenditures by \$55,030 or 3.1 percent.

Revenue Sharing Reserve Fund – The Revenue Sharing Reserve Fund had slight variance between the final amended budget and transfers out.

Public Improvement Fund – The Public Improvement Fund had a favorable variance between final amended budget and actual of \$54,389.

Library Fund – The Library had an unfavorable variance between final amended budget and actual of \$210,776.

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

Capital Asset and Debt Administration

Capital Assets. The County's investment in capital assets as of December 31, 2010, amounted to \$17,687,997 (net of accumulated depreciation) for its governmental activities. This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment, and vehicular equipment. The total increase in the County's investment in capital assets for the current fiscal year was approximately 8 percent. Major capital asset events during the current fiscal year included the following:

- \$44,601 for construction in progress at animal control
- \$178,092 for land improvements
- \$5,790 for law enforcement vehicles
- \$148,825 for Sportsplex building improvements
- \$55,927 for land purchase
- \$35,261 for building and grounds vehicles
- \$1,478,372 in depreciation expense on County assets
- \$150,000 for building purchases
- \$147,275 for building improvements
- \$20,723 for data handling equipment
- \$2,348,485 for airport infrastructure
- \$132,000 for EMS vehicles and data handling
- \$101,270 for University Center equipment , furniture and fixtures
- \$637,543 for Library furniture fixtures and collections
- \$7,775 for Sportsplex equipment
- \$24,702 for UC MAN infrastructure

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

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County had total bonded debt outstanding of \$2,897,550. The County's total debt decreased by \$2,055,000 (71percent) during the current fiscal year. A Building Authority bond debt was issued in 2010 in the amount of \$1,860,000.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (State Equalized Value). The current debt limitation for the County is \$155,242,582, which is significantly in excess of the County's outstanding general obligation debt. Additional information on the County's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's 2011 budget:

- Property tax revenues are projected to increase by approximately 10 percent in 2011, mainly due to an anticipated drop off in charge backs.
- The worsening state economy will result in decreasing state funding. The real effects of the decreases, particularly in State Revenue Sharing are yet to be known.

Highlights of the 2011 budget are as follows:

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

Contacting the County's Management

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

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Basic Financial Statements

Statement of Net Assets
December 31, 2010

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Current Assets:				
Cash & Equivalents	\$ 6,923,495	\$ 1,914,968	\$ 8,838,463	\$ 1,828,591
Investments	3,868,375	2,620,044	6,488,419	750,000
Receivables:				
Taxes	2,149,285	2,888,491	5,037,776	1,453,951
Accounts	34,716	3,341	38,057	846,579
Interest	-	329,179	329,179	-
Loans	1,861,481	-	1,861,481	-
Due from Governmental Units	986,410	465,218	1,451,628	-
Inventories	29,946	-	29,946	494,125
Prepaid Expenses	19,903	-	19,903	-
Total Current Assets	15,873,611	8,221,241	24,094,852	5,373,246
Noncurrent Assets:				
Advance to Component Unit	193,013	-	193,013	-
Internal Balance	2,000	(2,000)	-	-
Capital Assets Not Depreciated	750,846	99,998	850,844	170,157
Capital Assets (Net of Accumulated Depreciation)	16,937,151	1,120,605	18,057,756	20,568,785
Total Noncurrent Assets	17,883,010	1,218,603	19,101,613	20,738,942
TOTAL ASSETS	\$ 33,756,621	\$ 9,439,844	\$ 43,196,465	\$ 26,112,188
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 448,029	\$ 29,973	\$ 478,002	\$ 46,425
Accrued Liabilities	139,326	18,055	157,381	108,212
Other Liabilities	-	35,244	35,244	-
Advance from Government Units	-	-	-	291,378
Due to Governmental Units	159,303	-	159,303	82,887
Deferred Revenue	1,940,748	-	1,940,748	1,503,951
Interest Payable	16,340	-	16,340	-
Bonds Payable	305,000	-	305,000	-
Capital Leases Payable	12,760	-	12,760	27,487
Total Current Liabilities	3,021,506	83,272	3,104,778	2,060,340
Noncurrent Liabilities:				
Vested Employee Benefits	106,390	-	106,390	62,631
Advance from Primary Government	-	-	-	193,013
Bonds Payable	2,100,000	-	2,100,000	-
Capital Leases Payable	11,179	-	11,179	41,231
Post Employment Benefit Liabilities	1,058,656	-	1,058,656	3,771,592
Installment Purchase Agreement	480,926	-	480,926	-
Total Noncurrent Liabilities	3,757,151	-	3,757,151	4,068,467
TOTAL LIABILITIES	6,778,657	83,272	6,861,929	6,128,807
NET ASSETS:				
Invested in Capital Assets (net of related debt)	14,778,132	1,220,603	15,998,735	20,518,442
Restricted for Debt Service	49,410	-	49,410	-
Restricted for Capital Projects	1,254,252	-	1,254,252	-
Restricted for Ambulance and Emergency Services	-	-	-	640,201
Restricted for Sportsplex	-	-	-	162,242
Restricted for University Center	-	-	-	941,415
Restricted for Public Improvement	1,508,492	-	1,508,492	-
Restricted for Housing Commission	2,113,018	-	2,113,018	-
Restricted for Revenue Sharing	1,998,566	-	1,998,566	-
Restricted for Other Purposes	531,227	-	531,227	-
Unrestricted	4,744,867	8,135,969	12,880,836	(2,278,919)
TOTAL NET ASSETS	\$ 26,977,964	\$ 9,356,572	\$ 36,334,536	\$ 19,983,381

County of Otsego, Michigan

Statement of Activities For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Totals	
Primary Government:								
Governmental Activities:								
Legislative	\$ 183,449	\$ -	\$ -	\$ -	\$ (183,449)	\$ -	\$ (183,449)	\$ -
Judicial	1,931,273	641,754	773,159	-	(516,360)	-	(516,360)	-
General Government	2,159,000	440,007	254,140	-	(1,464,853)	-	(1,464,853)	-
Public Safety	3,133,045	1,337,191	365,894	-	(1,429,960)	-	(1,429,960)	-
Public Works	1,216,171	826,556	-	1,690,375	1,300,760	-	1,300,760	-
Health & Welfare	2,814,322	326,861	1,044,326	-	(1,443,135)	-	(1,443,135)	-
Community and Economic Development	1,422,813	346,169	-	-	(1,076,644)	-	(1,076,644)	-
Recreation and Culture	807,801	434,868	156,504	-	(216,429)	-	(216,429)	-
Other	2,365,505	-	-	-	(2,365,505)	-	(2,365,505)	-
Interest - Unallocated	175,582	-	-	-	(175,582)	-	(175,582)	-
Total Governmental Activities	<u>16,208,961</u>	<u>4,353,406</u>	<u>2,594,023</u>	<u>1,690,375</u>	<u>(7,571,157)</u>	<u>-</u>	<u>(7,571,157)</u>	<u>-</u>
Business-type Activities:								
Tax Collection	164,499	458,255	-	-	-	293,756	293,756	-
Public Transit	1,728,022	364,722	809,330	64,641	-	(489,329)	(489,329)	-
Non-Major Enterprise Funds	202,106	192,058	-	-	-	(10,048)	(10,048)	-
Total Business-type Activities	<u>2,094,627</u>	<u>1,015,035</u>	<u>809,330</u>	<u>64,641</u>	<u>-</u>	<u>(205,621)</u>	<u>(205,621)</u>	<u>-</u>
Total Primary Government	<u>\$ 18,303,588</u>	<u>\$ 5,368,441</u>	<u>\$ 3,403,353</u>	<u>\$ 1,755,016</u>	<u>(7,571,157)</u>	<u>(205,621)</u>	<u>(7,776,778)</u>	<u>-</u>
Component Units:								
Road Commission	\$ 7,207,539	\$ 847,382	\$ 4,952,749	\$ -	-	-	-	(1,407,408)
Ambulance	1,943,638	1,397,803	-	-	-	-	-	(545,835)
University Center	539,034	34,004	-	-	-	-	-	(505,030)
Sportsplex	1,186,940	684,044	-	-	-	-	-	(502,896)
Total Component Units	<u>10,877,151</u>	<u>2,963,233</u>	<u>4,952,749</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,961,169)</u>
Total	<u>\$ 29,180,739</u>	<u>\$ 8,331,674</u>	<u>\$ 8,356,102</u>	<u>\$ 1,755,016</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Revenues and Transfers:								
Taxes	-	-	-	-	7,520,876	302,190	7,823,066	1,430,890
Investment Earnings (Loss)	-	-	-	-	257,576	94,147	351,723	48,658
Transfers	-	-	-	-	263,000	(263,000)	-	-
Other	-	-	-	-	629,137	74,100	703,237	15,951
Total General Revenues and Transfers	-	-	-	-	<u>8,670,589</u>	<u>207,437</u>	<u>8,878,026</u>	<u>1,495,499</u>
Changes in Net Assets	-	-	-	-	1,099,432	1,816	1,101,248	(1,465,670)
Net Assets - Beginning	-	-	-	-	25,878,532	9,354,756	35,233,288	21,449,051
Net Assets - Ending	-	-	-	-	<u>\$ 26,977,964</u>	<u>\$ 9,356,572</u>	<u>\$ 36,334,536</u>	<u>\$ 19,983,381</u>

See accompanying notes to financial statements.

County of Otsego, Michigan

Balance Sheet Governmental Funds December 31, 2010

	General	M-TEC	Housing Commission	Commission on Aging 9/30/2010	Revenue Sharing Reserve	Public Improvement	Library	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Cash & Equivalents - Unrestricted	\$ 192,135	\$ 286	\$ 257,299	\$ 686,281	\$ 1,498,566	\$ 1,114,998	\$ 105,908	\$ 2,672,633	\$ 6,528,106
Investments	530,198	-	-	51,798	500,000	200,000	367,990	1,708,245	3,358,231
Receivables:									
Taxes	229,413	777,701	-	-	-	-	480,973	661,198	2,149,285
Accounts	-	-	-	19,635	-	-	-	11,206	30,841
Loans	-	-	1,861,481	-	-	-	-	-	1,861,481
Due from Other Funds	7,717	-	-	-	-	-	-	1,400	9,117
Due from Governmental Units	378,510	-	-	-	-	481	-	606,762	985,753
Inventories	9,919	-	-	833	-	-	-	18,869	29,621
Prepaid Expenditures	19,903	-	-	-	-	-	-	-	19,903
Long-Term Advances to:									
Other Funds - Component Units	-	-	-	-	-	193,013	-	-	193,013
TOTAL ASSETS	\$ 1,367,795	\$ 777,987	\$ 2,118,780	\$ 758,547	\$ 1,998,566	\$ 1,508,492	\$ 954,871	\$ 5,680,313	\$ 15,165,351
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,117	\$ 7,117
Accounts Payable	87,055	-	5,230	12,558	-	-	15,272	269,121	389,236
Due to Other Governmental Units	-	-	-	-	-	-	-	159,303	159,303
Accrued Liabilities	85,956	-	532	14,693	-	-	-	35,630	136,811
Deferred Revenue	20,876	777,701	1,861,481	-	-	-	480,973	661,198	3,802,229
TOTAL LIABILITIES	193,887	777,701	1,867,243	27,251	-	-	496,245	1,132,369	4,494,696
FUND BALANCES:									
Reserved for Inventory	9,919	-	-	-	-	-	-	10,884	20,803
Reserved for Schneider Trust	-	-	-	51,798	-	-	-	-	51,798
Reserved for Debt Service	-	-	-	-	-	-	-	49,410	49,410
Reserved for Capital Improvements	-	286	-	-	-	1,508,492	-	1,253,966	2,762,744
Reserved for Housing Projects	-	-	251,537	-	-	-	-	-	251,537
Reserved for Revenue Sharing Reserve	-	-	-	-	1,998,566	-	-	-	1,998,566
Reserved for Library	-	-	-	-	-	-	458,626	-	458,626
Unreserved:									
Undesignated	1,163,989	-	-	-	-	-	-	3,233,684	4,397,673
Designated	-	-	-	679,498	-	-	-	-	679,498
TOTAL FUND BALANCES	1,173,908	286	251,537	731,296	1,998,566	1,508,492	458,626	4,547,944	10,670,655
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,367,795	\$ 777,987	\$ 2,118,780	\$ 758,547	\$ 1,998,566	\$ 1,508,492	\$ 954,871	\$ 5,680,313	
Reconciliation to amounts reported for governmental activities in the statement of net assets:									
Capital assets used by governmental activities									17,687,997
Long term notes & leases payable for governmental activities									(2,909,865)
Compensated absences and OPEB liabilities									(1,165,046)
Deferred revenue recognized as current revenue									1,861,481
Internal Service Funds									849,082
Accrued interest expense									(16,340)
Net assets of governmental activities									\$ 26,977,964

See accompanying notes to financial statements.

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended December 31, 2010**

	General	M-TEC	Housing Commission	Commission on Aging 9/30/2010	Revenue Sharing Reserve	Public Improvement	Library	Other Governmental Funds	Total Governmental Funds
REVENUES:									
Taxes and Penalties	\$ 4,403,401	\$ 807,763	\$ -	\$ 1,218,222	\$ -	\$ -	\$ 433,182	\$ 658,308	\$ 7,520,876
Licenses & Permits	34,787	-	-	-	-	-	-	-	34,787
Federal Sources	405,499	-	362,859	171,838	-	-	-	1,510,406	2,450,602
State Sources	707,521	-	-	58,867	-	-	23,103	788,055	1,577,546
Local Sources	15,805	-	166,701	43,011	-	-	-	30,733	256,250
Charges for Services	901,567	-	-	173,664	-	-	-	2,130,482	3,205,713
Fines & Forfeits	12,041	-	-	-	-	-	193,585	4,225	209,851
Interest & Rentals	84,209	-	573	7,447	52,543	34,871	9,567	250,315	439,525
Other Revenue	326,796	-	127,523	57,349	-	19,518	64,115	456,110	1,051,411
TOTAL REVENUES	6,891,626	807,763	657,656	1,730,398	52,543	54,389	723,552	5,828,634	16,746,561
EXPENDITURES:									
Legislative	183,449	-	-	-	-	-	-	-	183,449
Judicial	1,849,807	-	-	-	-	-	-	72,377	1,922,184
General Government	2,007,452	-	-	-	-	-	-	87,255	2,094,707
Public Safety	1,776,405	-	-	-	-	-	-	1,378,238	3,154,643
Public Works	8,340	-	-	-	-	-	-	1,832,070	1,840,410
Health & Welfare	459,925	-	-	1,720,146	-	-	-	639,122	2,819,193
Community/Economic Development	93,348	808,553	520,912	-	-	-	-	-	1,422,813
Recreation and Culture	-	-	-	-	-	-	934,328	657,400	1,591,728
Other Expenditures	460,260	-	-	-	-	-	-	-	460,260
Capital Outlay	-	-	-	-	-	-	-	1,541,815	1,541,815
Debt Service	-	-	-	-	-	-	-	394,115	394,115
TOTAL EXPENDITURES	6,838,986	808,553	520,912	1,720,146	-	-	934,328	6,602,392	17,425,317
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	52,640	(790)	136,744	10,252	52,543	54,389	(210,776)	(773,758)	(678,756)
OTHER FINANCING SOURCES (USES):									
Advance Refunding	-	-	-	-	-	-	-	(1,860,000)	(1,860,000)
Advance Refunding Proceeds	-	-	-	-	-	-	-	1,860,000	1,860,000
Operating Transfers In	486,857	-	-	-	-	-	-	870,568	1,357,425
Operating Transfers Out	(592,538)	-	-	-	(450,742)	-	-	(51,145)	(1,094,425)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(53,041)	(790)	136,744	10,252	(398,199)	54,389	(210,776)	45,665	(415,756)
FUND BALANCES, JANUARY 1	1,226,949	1,076	114,793	721,044	2,396,765	1,454,103	669,402	4,502,279	11,086,411
FUND BALANCES, DECEMBER 31	\$ 1,173,908	\$ 286	\$ 251,537	\$ 731,296	\$ 1,998,566	\$ 1,508,492	\$ 458,626	\$ 4,547,944	\$ 10,670,655

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2010**

Net Changes in fund balances - total governmental funds	\$ (415,756)
The change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$2,665,579) exceeded depreciation (\$1,307,645).	1,357,934
Revenues earned but not available for current resources are not reported in the funds.	
Housing Commission - loan increase	218,646
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Principal repayments:	
Bonds Payable	206,624
Capital Leases	12,078
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:	
Compensated absences	(8,759)
Post employment benefit liability	(363,430)
Accrued interest expense	11,909
Internal service fund activity	80,186
Changes in net assets of governmental activities	\$ 1,099,432

Statement of Net Assets
 Proprietary Funds
 December 31, 2010

	Business-Type Activities - Enterprise Funds				Governmental
	Major			Total Enterprise Funds	Activities
	Delinquent Tax Fund	9/30/2010 Bus System	Non-Major Enterprise Funds		Internal Service Funds
ASSETS:					
Current Assets					
Cash & Equivalents	\$ 1,337,372	\$ 133,181	\$ 444,415	\$ 1,914,968	\$ 395,389
Investments	2,515,044	-	105,000	2,620,044	510,144
Taxes Receivable	2,888,491	-	-	2,888,491	-
Interest Receivable	329,179	-	-	329,179	-
Accounts Receivable	-	3,341	-	3,341	3,875
Due from Governmental Units	285,199	180,019	-	465,218	657
Inventory	-	-	-	-	325
Total Current Assets	7,355,285	316,541	549,415	8,221,241	910,390
Noncurrent Assets					
Capital Assets, Not Depreciated	-	99,998	-	99,998	-
Capital Assets, (Net of Accumulated Depreciation)	-	960,719	159,886	1,120,605	-
Total Noncurrent Assets	-	1,060,717	159,886	1,220,603	-
TOTAL ASSETS	\$ 7,355,285	\$ 1,377,258	\$ 709,301	\$ 9,441,844	\$ 910,390
LIABILITIES:					
Current Liabilities					
Due to Other Funds	\$ -	\$ -	\$ 2,000	\$ 2,000	\$ -
Accounts Payable	12,551	15,935	1,487	29,973	58,793
Accrued Liabilities	2,366	14,911	778	18,055	2,515
Other Liabilities	4,208	31,036	-	35,244	-
Total Current Liabilities	19,125	61,882	4,265	85,272	61,308
TOTAL LIABILITIES	19,125	61,882	4,265	85,272	61,308
NET ASSETS:					
Invested in Capital Assets - Net of Related Debt	-	1,060,717	159,886	1,220,603	-
Unrestricted	7,336,160	254,659	545,150	8,135,969	849,082
TOTAL NET ASSETS	\$ 7,336,160	\$ 1,315,376	\$ 705,036	\$ 9,356,572	\$ 849,082

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended December 31, 2010**

	Business-Type Activities - Enterprise Funds				Governmental
	Major			Total Enterprise Funds	Activities
	Delinquent Tax Fund	9/30/2010 Bus System	Non-Major Enterprise Funds		Internal Service Funds
OPERATING REVENUES:					
Local Sources	\$ -	\$ -	\$ 7,000	\$ 7,000	\$ -
Charges for Services	129,814	364,722	192,058	686,594	2,058,929
Interest on Delinquent Taxes	328,441	-	-	328,441	-
Other Revenues	255	-	17,641	17,896	313
TOTAL REVENUES	458,510	364,722	216,699	1,039,931	2,059,242
OPERATING EXPENSES:					
Salaries, Wages, and Fringe Benefits	73,950	1,196,267	21,312	1,291,529	359,768
Contractual Services	57,065	-	36,643	93,708	2,380
Materials and Supplies	2,987	-	9,447	12,434	2,168
Equipment Repair and Maintenance	11,500	-	-	11,500	93,366
Utilities	-	-	-	-	219,417
Depreciation	-	158,430	12,297	170,727	-
Other Expenses	18,997	373,325	122,407	514,729	1,303,072
TOTAL EXPENSES	164,499	1,728,022	202,106	2,094,627	1,980,171
OPERATING INCOME (LOSS)	294,011	(1,363,300)	14,593	(1,054,696)	79,071
NON-OPERATING REVENUES (EXPENSES):					
State Operating Grants	-	556,788	-	556,788	-
Federal Operating Grants	-	252,542	-	252,542	-
Interest Earned on Investments	-	187	20,152	20,339	1,115
Property Taxes Levied	-	302,190	-	302,190	-
Unrealized Gain (Loss) on Investments	73,808	-	-	73,808	-
Other	-	49,204	-	49,204	-
TOTAL NONOPERATING REVENUES (EXPENSES)	73,808	1,160,911	20,152	1,254,871	1,115
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND INTERFUND TRANSFERS	367,819	(202,389)	34,745	200,175	80,186
CAPITAL CONTRIBUTIONS:					
Contributions From Local Sources	-	64,641	-	64,641	-
INTERFUND TRANSFERS:					
Operating Transfers In	-	-	37,000	37,000	-
Operating Transfers Out	(300,000)	-	-	(300,000)	-
CHANGES IN NET ASSETS	67,819	(137,748)	71,745	1,816	80,186
NET ASSETS, JANUARY 1	7,268,341	1,453,124	633,291	9,354,756	768,896
NET ASSETS, DECEMBER 31	\$ 7,336,160	\$ 1,315,376	\$ 705,036	\$ 9,356,572	\$ 849,082

**Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010**

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major				Internal Service Funds
	Delinquent Tax Fund	9/30/2010 Bus System	Non-Major Enterprise Funds	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 380,944	\$ 364,722	\$ 216,699	\$ 962,365	\$ 2,062,499
Interest on Delinquent Taxes	400,471	-	-	400,471	-
Delinquent Taxes Purchased	(3,344,554)	-	-	(3,344,554)	-
Delinquent Taxes Collected	3,162,183	-	-	3,162,183	-
Payments to Suppliers	(289,956)	(416,389)	(191,947)	(898,292)	(1,620,455)
Payments to Employees for Services and Benefits	(72,841)	(1,232,041)	-	(1,304,882)	(359,978)
Net Cash Provided (Used) by Operating Activities	236,247	(1,283,708)	24,752	(1,022,709)	82,066
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
State Grants	-	556,788	-	556,788	-
Federal Grants	-	252,542	-	252,542	-
Property Tax	-	302,190	-	302,190	-
Other	-	49,204	-	49,204	-
Operating Transfers In	-	-	37,000	37,000	-
Operating Transfers Out	(300,000)	-	-	(300,000)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(300,000)	1,160,724	37,000	897,724	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Repayment of Note Principal & Interest	-	(6,902)	-	(6,902)	-
Federal and State Capital Assistance	-	64,641	-	64,641	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	57,739	-	57,739	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net Sale or (Purchase) of Investments	(2,285,438)	-	(105,000)	(2,390,438)	(2,445)
Interest Earnings	-	187	20,152	20,339	1,115
Net Cash Provided (Used) by Investing Activities	(2,285,438)	187	(84,848)	(2,370,099)	(1,330)
Net Increase (Decrease) in Cash and Equivalents	(2,349,191)	(65,058)	(23,096)	(2,437,345)	80,736
Balances - Beginning of the Year	3,686,563	198,239	467,511	4,352,313	314,653
Balances - End of the Year	\$ 1,337,372	\$ 133,181	\$ 444,415	\$ 1,914,968	\$ 395,389
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 294,011	\$ (1,363,300)	\$ 14,593	\$ (1,054,696)	\$ 79,071
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	158,430	12,297	170,727	-
Change in Assets and Liabilities:					
Taxes Receivable	(182,371)	-	-	(182,371)	-
Accrued Interest Receivable	72,030	-	-	72,030	-
Accounts Receivable	-	(22,548)	-	(22,548)	3,257
Due from Other Governmental Units	229,230	-	2,000	231,230	-
Inventory	-	-	-	-	136
Due from Other Funds	21,645	-	-	21,645	-
Accounts Payable	(199,910)	(20,516)	(3,874)	(224,300)	(188)
Accrued Liabilities	1,109	(35,774)	(264)	(34,929)	(210)
Other Liabilities	503	-	-	503	-
Net Cash Provided (Used) by Operating Activities	\$ 236,247	\$ (1,283,708)	\$ 24,752	\$ (1,022,709)	\$ 82,066

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2010

	<u>Agency Funds</u>
ASSETS:	
Cash and Equivalents	<u>\$ 1,116,707</u>
 TOTAL ASSETS	 <u><u>\$ 1,116,707</u></u>
LIABILITIES:	
Accounts Payable	\$ 101,168
Undistributed Receipts	107,178
Undistributed Tax Collections	682,991
Bonds, Restitutions and Payables to Others	<u>225,370</u>
 TOTAL LIABILITIES	 <u><u>\$ 1,116,707</u></u>

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Component Units

County of Otsego, Michigan

Statement of Net Assets Component Units December 31, 2010

	Road Commission	Ambulance Corporation	University Center	Sportsplex	Totals
ASSETS:					
Current Assets:					
Cash and Equivalents	\$ 1,124,861	\$ 96,329	\$ 456,764	\$ 150,637	\$ 1,828,591
Investments	-	250,000	500,000	-	750,000
Receivables:					
Taxes	-	481,216	670,484	302,251	1,453,951
Accounts	423,822	372,900	23,785	26,072	846,579
Inventories	469,928	-	-	24,197	494,125
Total Current Assets	2,018,611	1,200,445	1,651,033	503,157	5,373,246
Noncurrent Assets:					
Capital Assets (Not Depreciated)	170,157	-	-	-	170,157
Capital Assets (Net of Accumulated Depreciation)	19,647,146	726,422	195,217	-	20,568,785
Total Noncurrent Assets	19,817,303	726,422	195,217	-	20,738,942
TOTAL ASSETS	\$ 21,835,914	\$ 1,926,867	\$ 1,846,250	\$ 503,157	\$ 26,112,188
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 7,313	\$ 34,275	\$ 467	\$ 4,370	\$ 46,425
Accrued Liabilities	44,078	3,522	38,667	21,945	108,212
Due to Governmental Units	70,538	-	-	12,349	82,887
Advance from Government Units	291,378	-	-	-	291,378
Deferred Revenue	50,000	481,216	670,484	302,251	1,503,951
Capital Leases	-	27,487	-	-	27,487
Total Current Liabilities	463,307	546,500	709,618	340,915	2,060,340
Noncurrent Liabilities:					
Long-term Advance from Primary Government	-	193,013	-	-	193,013
Capital Leases	-	41,231	-	-	41,231
Other Post Employment Benefits	3,771,592	-	-	-	3,771,592
Vested Employee Benefits	62,631	-	-	-	62,631
Total Noncurrent Liabilities	3,834,223	234,244	-	-	4,068,467
TOTAL LIABILITIES	4,297,530	780,744	709,618	340,915	6,128,807
NET ASSETS:					
Invested in Capital Assets, net of related debt	19,817,303	505,922	195,217	-	20,518,442
Unrestricted	(2,278,919)	-	-	-	(2,278,919)
Restricted for Ambulance and Emergency Services	-	640,201	-	-	640,201
Restricted for Sportsplex	-	-	-	162,242	162,242
Restricted for University Center	-	-	941,415	-	941,415
TOTAL NET ASSETS	\$ 17,538,384	\$ 1,146,123	\$ 1,136,632	\$ 162,242	\$ 19,983,381

County of Otsego, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Ambulance Corporation	University Center	Sportsplex	Total
Road Commission:									
Public Works	\$ 7,207,539	\$ 847,382	\$ 4,952,749	\$ -	\$ (1,407,408)	\$ -	\$ -	\$ -	\$ (1,407,408)
Ambulance Corporation:									
Health & Welfare	1,943,638	1,397,803	-	-	-	(545,835)	-	-	(545,835)
University Center:									
Recreation and Culture	539,034	34,004	-	-	-	-	(505,030)	-	(505,030)
Sportsplex:									
Recreation and Culture	1,186,940	684,044	-	-	-	-	-	(502,896)	(502,896)
Total Component Units	<u>\$ 10,877,151</u>	<u>\$ 2,963,233</u>	<u>\$ 4,952,749</u>	<u>\$ -</u>	<u>(1,407,408)</u>	<u>(545,835)</u>	<u>(505,030)</u>	<u>(502,896)</u>	<u>(2,961,169)</u>
General Revenues and Transfers:									
Property Tax					-	474,977	661,195	294,718	1,430,890
Investment Earnings					29,813	5,645	12,083	1,117	48,658
Other					13,835	2,116	-	-	15,951
Total General Revenues and Transfers					<u>43,648</u>	<u>482,738</u>	<u>673,278</u>	<u>295,835</u>	<u>1,495,499</u>
Changes in Net Assets					(1,363,760)	(63,097)	168,248	(207,061)	(1,465,670)
Net Assets - Beginning					18,902,144	1,209,220	968,384	369,303	21,449,051
Net Assets - Ending					<u>\$ 17,538,384</u>	<u>\$ 1,146,123</u>	<u>\$ 1,136,632</u>	<u>\$ 162,242</u>	<u>\$ 19,983,381</u>

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County was organized in 1840 and covers an area of approximately 527 square miles divided into nine townships, one village, and one city. The County seat is located in the City of Gaylord. The County of Otsego operates under an elected board of commissioners (nine members) with an appointed county coordinator who assists with day-to-day operations. The County of Otsego provides services to its more than 23,300 residents in many areas including law enforcement, administration of justice, community enrichment, economic development, and human services.

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

A – Reporting Entity:

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

Blended Component Units

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Discretely Presented Component Units

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Administrative Offices

Otsego County Bus System
1254 Energy Drive
Gaylord, Michigan 49735

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

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, Michigan 49735

Otsego County University Center
80 Livingston Boulevard
Gaylord, Michigan 49735

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Northwest Michigan Community Health Agency – Northwest Michigan Community Health Agency provides health service for Otsego County. The Counties of Otsego, Antrim, Emmet, and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the records of Charlevoix County. The funding formula approved by the member Counties is based pro rata on each unit’s population and equalized valuation to the district’s total population and valuation. Member Counties’ percentages of the net operation budget for the year 2010 were:

Otsego	22.4 percent	Antrim	22.2 percent
Charlevoix	25.1 percent	Emmet	30.3 percent

Otsego County’s appropriation and cigarette tax to the Health Agency for the year was \$165,000.

Michigan Technical Education Center (M-TEC) – Kirtland Community College, a community college district established pursuant to the provisions of Public Act 331 of 1996, obtained funding through the Michigan Economic Development Corporation (MEDC) to construct and equip the Michigan Technical Center (M-TEC), and educational facility in the County of Otsego. On December 7, 1999, the electors of the County authorized a tax levy not to exceed .65 mills for a period of twenty years for the purpose of generating funds to operate the facility. The facility provides vocational, technical, job skills, or workforce development programs and services. Pursuant to the operating agreement, Kirtland established an advisory board (which includes representatives of the county) and is to report its preliminary, final and amended M-TEC budgets to the County’s board. Financial records for M-TEC are recorded and maintained by the Kirtland Community College and audited separately. Otsego County’s tax revenues amounted to \$807,763 for which Otsego appropriated \$808,553 to Kirtland Community College.

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

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

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The 2010 local match for Otsego County was \$94,003.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiscal Year End Other Than December 31, 2010

The financial information presented in this report is for the year ended December 31, 2010, except for the following funds:

<u>Fund</u>	<u>Fund Presentation</u>	<u>Fiscal Year End</u>
Commission on Aging	Special Revenue Fund	September 30, 2010
Bus System	Enterprise Fund	September 30, 2010

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first, then unrestricted resources as needed.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered to be available when all eligibility requirements imposed by the grantor have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

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

Although the County of Otsego 2009 ad valorem tax is levied and collectible on December 1, 2009 and the 2010 ad valorem tax is levied and collectible on July 1, 2010, it is the County of Otsego's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax fund within one year.

The 2009 taxable valuation of Otsego County amounted to \$1,262,251,288 on which ad valorem taxes of .3000 mills for Animal Control, 1.000 mill for Commission on Aging, .1875 mills for Community Center, .0625 mills for County Parks, .2500 for the Bus System, .3660 mills for Library, .4000 for Ambulance, .6464 for M-TEC, .5569 for the University Center, and .2500 for Sportsplex Operating.

The 2009 current tax levied included \$375,949 for Animal Control, \$1,253,162 for Commission on Aging, \$234,401 for Community Center, \$78,891 for County Parks, \$315,563 for the Bus System, \$458,657 for the Library, \$501,265 for the Ambulance, \$810,044 for M-TEC, \$697,886 for the University Center, and \$313,291 for Sportsplex Operating. These taxes will be recorded as revenue on County records in and for the year of 2010. The July 1, 2010 taxable valuation of the County of Otsego totaled \$1,201,805,060 on which ad valorem taxes levied consisted of 4.0502 mills for the General Fund. This amount is recognized as revenue in the General Fund.

The taxes receivable is recorded in the financial statements as taxes receivable, with an offsetting credit to deferred revenue based on the 2010 taxable valuation. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2010 and accordingly, do not reflect taxes receivable and deferred revenue. Tax receivables are recorded in the General Fund for the summer taxes not collected at year end. The corresponding revenue is recorded as tax revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The County reports the following major governmental funds:

General Fund

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

M-Tech

This Fund accounts for the collection and disbursement of a tax levy to operate the Michigan Technical Center (M-Tech), an educational facility.

Housing Commission

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

Commission on Aging

This Fund was established to collect and remit taxes levied and grants to support programs and services to the elderly of Otsego County.

Revenue Sharing Reserve Fund

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

Public Improvement

This Fund accounts for earmarked revenue set aside for statutory public improvements.

County Library

This Fund accounts for the operation of a public library.

The County reports the following major proprietary funds:

Delinquent Tax Fund

This Fund accounts for the collection of delinquent taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bus System

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

Additionally, the County reports the following fund types:

Special Revenue Funds

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

Debt Service Funds

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

Capital Project Funds

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

Internal Service Funds

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

Agency Funds

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

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D - Assets, Liabilities, and Net Assets or Equity:

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

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

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

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

Inventories – Primary Government

General Fund – The inventory consists of postage and supplies on hand valued at cost in the amount of 9,919 at December 31, 2010.

Commission on Aging – \$833 of inventory was on hand at September 30, 2010.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Airport – The inventory at the airport consists of fuel on hand based on average cost with a value of \$18,869 at December 31, 2010.

Administration – The inventory consists of supplies on hand valued at cost in the amount of \$325 at December 31, 2010.

Inventories – Component Units

Road Commission – Inventories amounting to \$469,928 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

Sportsplex – Inventory consist of items in the Pro Shop with a value of \$24,197.

Accounts Receivable – Component Unit

Ambulance – The accounts receivable balance is net of allowance for doubtful accounts of \$977,100.

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave)

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

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor’s report, which is the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

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

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

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

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents – Unrestricted	\$ 6,923,495	\$ 1,914,968	\$ 8,838,463	\$ 1,116,707	\$ 1,828,591
Total	<u>\$ 6,923,495</u>	<u>\$ 1,914,968</u>	<u>\$ 8,838,463</u>	<u>\$ 1,116,707</u>	<u>\$ 1,828,591</u>

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 8,825,933	\$ 1,116,707	\$ 1,824,831
Petty Cash and Cash on Hand	<u>12,530</u>	<u>-</u>	<u>3,760</u>
Total	<u>\$ 8,838,463</u>	<u>\$ 1,116,707</u>	<u>\$ 1,828,591</u>

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>	<u>Rating</u>
Investments:						
Money Markets	\$ 1,338,591	\$ 1,338,591	\$ -	\$ -	\$ -	N/A
U.S. Treasury Securities	4,005,328	-	2,002,508	-	2,002,820	AAA
Asset Backed Securities	<u>1,894,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,894,500</u>	AAA
Total Investments	<u>\$ 7,238,419</u>	<u>\$ 1,338,591</u>	<u>\$ 2,002,508</u>	<u>\$ -</u>	<u>\$ 3,897,320</u>	

Governmental Activities	\$ 3,868,375
Business Activities	2,620,044
Component Units	<u>750,000</u>
Total	<u>\$ 7,238,419</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$7,238,419 in investments, all are in the name of the County. Money Markets are unrated or are not available from the rating agency.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for custodial deposit credit risk. As of year end, \$5,582,600 of the County's bank balance of \$9,572,980 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - RECEIVABLES

Loans receivable – Housing Commission Fund (Major Fund)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0% to 3.5% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation, or rehabilitation of residential buildings. At December 31, 2010, the total outstanding loans were \$1,861,481.

NOTE 5 - CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 470,459	\$ 234,019	\$ -	\$ 704,478
Construction in Progress	1,313,047	44,600	(1,311,279)	46,368
Subtotal	<u>1,783,506</u>	<u>278,619</u>	<u>(1,311,279)</u>	<u>750,846</u>
<i>Capital assets being depreciated:</i>				
Buildings	14,228,458	638,229	-	14,866,687
Furniture and Fixtures	251,511	229,614	-	481,125
Equipment:				
Data Handling	1,273,107	20,723	(15,119)	1,278,711
Other Equipment	1,751,026	415,704	(24,572)	2,142,158
Commission on Aging	114,430	4,433	-	118,863
Vehicles	1,738,433	41,051	-	1,779,484
Infrastructure	9,119,530	2,348,485	-	11,468,015
Subtotal	<u>28,476,495</u>	<u>3,698,239</u>	<u>(39,691)</u>	<u>32,135,043</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities: (Continued)				
<i>Less accumulated depreciation for:</i>				
Buildings	(6,879,978)	(555,700)	-	(7,435,678)
Furniture and Fixtures	(176,102)	(35,448)	-	(211,550)
Equipment:				
Data Handling	(1,112,357)	(41,890)	15,119	(1,139,128)
Other Equipment	(1,003,715)	(22,325)	24,572	(1,001,468)
Commission on Aging	(98,221)	(5,639)	-	(103,860)
Vehicles	(1,512,880)	(73,102)	-	(1,585,982)
Infrastructure	(3,146,685)	(573,541)	-	(3,720,226)
Subtotal	<u>(13,929,938)</u>	<u>(1,307,645)</u>	<u>39,691</u>	<u>(15,197,892)</u>
Net Capital Assets Being Depreciated	<u>14,546,557</u>	<u>2,390,594</u>	<u>-</u>	<u>16,937,151</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 16,330,063</u>	<u>\$ 2,669,213</u>	<u>\$ (1,311,279)</u>	<u>\$ 17,687,997</u>

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

Governmental Activities:		
Judicial		\$ 4,625
General Government		317,686
Public Safety		85,165
Public Works		654,010
Recreation and Culture		<u>246,159</u>
Total Depreciation – Governmental Activities		<u>\$ 1,307,645</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
<i>Capital assets being depreciated:</i>				
Buildings	760,033	-	-	760,033
Vehicles	1,571,065	-	(48,480)	1,522,585
Equipment	563,815	-	-	563,815
Subtotal	<u>2,894,913</u>	<u>-</u>	<u>(48,480)</u>	<u>2,846,433</u>
<i>Less accumulated depreciation for:</i>				
Building	(232,233)	(38,002)	-	(270,235)
Vehicles	(1,017,398)	(107,488)	48,480	(1,076,406)
Equipment	(353,950)	(25,237)	-	(379,187)
Subtotal	<u>(1,603,581)</u>	<u>(170,727)</u>	<u>48,480</u>	<u>(1,725,828)</u>
Net Capital Assets Being Depreciated	<u>1,291,332</u>	<u>(170,727)</u>	<u>-</u>	<u>1,120,605</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 1,391,330</u>	<u>\$ (170,727)</u>	<u>\$ -</u>	<u>\$ 1,220,603</u>

NOTE 5 - CAPITAL ASSETS (Continued)

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

Business-Type Activities:	
UC Metropolitan Area Network	\$ 12,297
Bus System	<u>158,430</u>
Total Business-Type Activities	<u>\$ 170,727</u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land and Improvements	\$ 170,157	\$ -	\$ -	\$ 170,157
<i>Capital assets being depreciated:</i>				
Buildings	3,010,705	-	-	3,010,705
Road Equipment	5,505,510	33,606	(253,540)	5,285,576
Shop Equipment	101,269	1,539	-	102,808
Office Equipment	78,105	-	-	78,105
Engineer's Equipment	19,568	-	-	19,568
Yard and Storage Equipment	1,800	-	-	1,800
Depletable Assets	4,760	-	-	4,760
Traffic Signals	44,756	-	-	44,756
Infrastructure – Bridges	1,773,657	6,621	-	1,780,278
Infrastructure – Roads	<u>33,522,961</u>	<u>1,700,748</u>	-	<u>35,223,709</u>
Subtotal	<u>44,063,091</u>	<u>1,742,514</u>	<u>(253,540)</u>	<u>45,552,065</u>
<i>Less accumulated depreciation:</i>				
Building	(1,228,610)	(72,457)	-	(1,301,067)
Road Equipment	(4,684,663)	(289,919)	253,540	(4,721,042)
Shop Equipment	(93,176)	(3,952)	-	(97,128)
Office Equipment	(74,243)	(2,760)	-	(77,003)
Engineer's Equipment	(16,001)	(465)	-	(16,466)
Yard and Storage Equipment	(1,800)	-	-	(1,800)
Traffic Signals	(23,077)	(2,984)	-	(26,061)
Infrastructure – Bridges	(340,292)	(70,946)	-	(411,238)
Infrastructure – Roads	<u>(17,477,544)</u>	<u>(1,775,570)</u>	-	<u>(19,253,114)</u>
Subtotal	<u>(23,939,406)</u>	<u>(2,219,053)</u>	<u>253,540</u>	<u>(25,904,919)</u>
Net Capital Assets Being Depreciated	<u>20,123,685</u>	<u>(476,539)</u>	-	<u>19,647,146</u>
Total Net Capital Assets	<u>\$ 20,293,842</u>	<u>\$ (476,539)</u>	<u>\$ -</u>	<u>\$ 19,817,303</u>

Depreciation expense was charged entirely to Public Works.

NOTE 5 - CAPITAL ASSETS (Continued)

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 725,000	\$ -	\$ -	\$ 725,000
Other Equipment	429,336	95,000	-	524,336
Vehicles	<u>1,312,347</u>	<u>37,000</u>	<u>-</u>	<u>1,349,347</u>
Subtotal	<u>2,466,683</u>	<u>132,000</u>	<u>-</u>	<u>2,598,683</u>
<i>Less accumulated depreciation for:</i>				
Building	(377,000)	(29,000)	-	(406,000)
Other Equipment	(376,522)	(27,114)	-	(403,636)
Vehicles	<u>(991,979)</u>	<u>(70,646)</u>	<u>-</u>	<u>(1,062,625)</u>
Subtotal	<u>(1,745,501)</u>	<u>(126,760)</u>	<u>-</u>	<u>(1,872,261)</u>
Net Capital Assets Being Depreciated	<u>\$ 721,182</u>	<u>\$ 5,240</u>	<u>\$ -</u>	<u>\$ 726,422</u>

Depreciation expense was charged entirely to Health and Welfare.

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 12,908	\$ 80,158	\$ -	\$ 93,066
Leasehold Improvements	24,854	-	-	24,854
Furniture and Fixtures	230,615	8,230	-	238,845
Data Handling Equipment	<u>508,818</u>	<u>12,882</u>	<u>(2,331)</u>	<u>519,369</u>
Subtotal	<u>777,195</u>	<u>101,270</u>	<u>(2,331)</u>	<u>876,134</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(3,098)	(8,532)	-	(11,630)
Leasehold Improvements	(24,853)	-	-	(24,853)
Furniture and Fixtures	(176,085)	(6,509)	-	(182,594)
Data Handling Equipment	<u>(408,008)</u>	<u>(56,163)</u>	<u>2,331</u>	<u>(461,840)</u>
Subtotal	<u>(612,044)</u>	<u>(71,204)</u>	<u>2,331</u>	<u>(680,917)</u>
Net Capital Assets Being Depreciated	<u>\$ 165,151</u>	<u>\$ 30,066</u>	<u>\$ -</u>	<u>\$ 195,217</u>

Depreciation expense was charged entirely to Recreation and Culture.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

DUE TO OTHER FUNDS			
DUE FROM OTHER FUNDS	General Fund	Nonmajor Governmental	Totals
Nonmajor Governmental	\$ 5,717	\$ 1,400	\$ 7,117
Nonmajor Enterprise	2,000	-	2,000
Totals	\$ 7,717	\$ 1,400	\$ 9,117

ADVANCES TO OTHER FUNDS	
ADVANCES FROM OTHER FUNDS	Public Improvement
Component Units	
Ambulance	\$ 193,013

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

TRANSFERS OUT					
TRANSFERS IN	General Fund	Revenue Sharing Reserve	Nonmajor Governmental	Delinquent Tax	Total
General Fund	\$ -	\$ 450,742	\$ 16,115	\$ 20,000	\$ 486,857
Nonmajor Governmental	586,538	-	14,030	270,000	870,568
Nonmajor Enterprise	6,000	-	21,000	10,000	37,000
Total	\$ 592,538	\$ 450,742	\$ 51,145	\$ 300,000	\$ 1,394,425

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

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

NOTE 7 - LONG-TERM DEBT

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

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

	Balance 01/01/10	Increases	Decreases	Balance 12/31/10	Due Within One Year
Otsego County Building Authority Series 1991 Bonds, (Alpine Center Project) maturing serially through 2012 in annual amounts ranging from \$85,000 to \$95,000 and an interest rate of 7.0%.	\$ 265,000	\$ -	\$ 85,000	\$ 180,000	\$ 85,000
Otsego County Building Authority Series 1994-1 Bonds, maturing serially through 2014 in annual amounts ranging from \$45,000 to \$60,000 and at interest rates ranging from 6.1% to 6.3%.	260,000	-	45,000	215,000	50,000
Otsego County Building Authority Series 2000 Bonds, maturing serially through 2020 in annual amounts ranging from \$75,000 to \$250,000 and at interest rates from 5% to 5.5%.	2,075,000	-	1,925,000	150,000	150,000
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%.	-	1,860,000	-	1,860,000	20,000
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%.	492,550	-	11,624	480,926	-
Vested Employee Benefits Payable (1)	97,631	8,759	-	106,390	-
Total Long-Term Debt	\$ 3,190,181	\$ 1,868,759	\$ 2,066,624	\$ 2,992,316	\$ 305,000

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

NOTE 7 - LONG-TERM DEBT (Continued)

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

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 305,000	\$ 126,812
2012	315,000	74,270
2013	245,000	63,295
2014	293,184	54,205
2015	251,519	51,165
2016-2020	1,302,127	134,873
2021-2024	<u>174,096</u>	<u>7,016</u>
Total	<u>\$ 2,885,926</u>	<u>\$ 511,636</u>

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

	<u>Balance 01/01/10</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/10</u>
General Obligation:				
Compensated Absences (1)	<u>76,822</u>	<u>-</u>	<u>14,191</u>	<u>62,631</u>
Total	<u>\$ 76,822</u>	<u>\$ -</u>	<u>\$ 14,191</u>	<u>\$ 62,631</u>

(1) The change in compensated absences is shown as a net decrease.

The Road Commission entered into an installment loan with First Federal of Northern Michigan for the purchase of two International 5500I plow trucks on March 1, 2006. The initial debt was \$177,240 with interest accruing at 4.29%. The equipment installment agreement requires 36 payments of \$5,256 per month with the final payment due on March 1, 2009.

The long-term debt of the Otsego County Bus System is summarized as follows:

The Bus System entered into a loan contract with the Bank of Northern Michigan. The loan is secured by two vans purchased by the note. The loan, in the amount of \$37,990, is payable in forty-eight monthly installments of \$876 for four years, including interest at the rate of 5.00%. The first payment was due on June 10, 2006. Activity of the note payable for the year ended September 30, 2010 is summarized as follows:

NOTE 7 - LONG-TERM DEBT (Continued)

Balance, October 1, 2009	\$ 6,902
Additions	-
Deletions (payments)	<u>(6,902)</u>
Balance, September 30, 2010	<u>\$ -</u>

NOTE 8 - VESTED EMPLOYEE BENEFITS

Primary Government

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

Vested Employee Benefits Payable – Bus System (Enterprise Fund)

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

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

Upon termination, an employee receives payment for the balance of any unused vacation leave which begins to accrue on the employee’s anniversary date. Employees can carry over a maximum base vacation leave to the next year. Unused sick leave may be paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2010 will be paid from current financial resources and is not recorded as long-term liability.

Road Commission – Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2010 at current wage rates amounted to \$62,631 and is reflected in the Long-Term Debt. Sick leave is not vested and accordingly is not accrued.

NOTE 9 - OPERATING LEASES

Primary Government Operating Leases

Commission on Aging – The Commission has an operating lease with Delage Landen Financial Services for the use of a copier. The monthly payment is \$442, with the lease agreement effective through August 2012. Future lease obligations for the copier are as follows:

<u>Year Ending September 30</u>	<u>Mailing System</u>
2011	\$ 5,304
2012	4,862

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

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

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

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The County participates in two retirement plans: a Defined Benefit Retirement Plan and a Defined Contribution/Defined Benefit Hybrid Retirement Plan. Beginning January 1, 2009, all newly hired non-union County employees will be enrolled in the Hybrid Plan. The following is a summary of each plan.

Primary Government

DEFINED BENEFIT RETIREMENT PLAN

Description of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General Non-union, POAM, Teamsters Local #214, and 46th Circuit Court is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC-5), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors and the Sheriff-POLC Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC-5), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2009.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12 (a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

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

The contribution rate as a percentage of payroll at December 31, 2010 is as follows:

<u>Division Name</u>	<u>Monthly \$ Amount or Employer %</u>
General Non-Union	\$ 2,560
General Local 214	11.14%
POAM	10.78%
Elected Officials	0.00%
Elected/Appointed Supervisors	\$ 15,703
Court Union	0.00%
Sheriff Union	25.86%

Annual Pension Cost

During the calendar year ended December 31, 2010, the County’s contributions totaled \$716,885 and the employee contributions totaled \$0; these contributions are made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2008, and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his project benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 635,376	100%	0
2008	590,169	100%	0
2009	633,642	100%	0

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

DEFINED CONTRIBUTION/DEFINED BENEFIT HYBRID RETIREMENT PLAN

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

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

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

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

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

Road Commission – Component Unit

Description of Plan and Plan Assets

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

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

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report available to the public that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48817.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2009. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2009 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/09)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 5,490,220
Terminated employees not yet receiving benefits	35,274
Current Employees:	
Accumulated employees contributions including allocated investment income	23,043
Employer financed	<u>3,704,811</u>
Total actuarial accrued liability	9,253,348
Net assets available for benefits, at actuarial value (Market value is \$5,226,436)	<u>6,541,763</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 2,711,585</u>

GASB 27 INFORMATION (as of 12/31/09)

Fiscal year beginning	January 1, 2011
Annual required contribution (ARC)	\$ 281,076
Amortization factor used	0.055889

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions are actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2009 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 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 238,814	100%	0
2008	256,452	100%	0
2009	281,074	100%	0

The Road Commission was required to contribute \$259,826 for the year ended December 31, 2010. Payments were based on contribution calculation made by MERS.

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

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

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS

Primary Government

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

Funding Policy. Contribution requirements also are negotiated between the County and employees. The County contributes 90% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2010, the County contributed \$94,494 to the plan. Total member contributions were \$5,436.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

Annual required contribution	\$ 497,814
Interest on net OPEB obligation	27,809
Adjustment to annual required contribution	<u>(40,118)</u>
Annual OPEB cost (expense)	485,505
Contributions made	<u>(122,075)</u>
Increase in net OPEB obligation	363,430
Net OPEB obligation – beginning of year	<u>695,226</u>
Net OPEB obligation – end of year	<u>\$ 1,058,656</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008, 2009, and 2010 is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 446,239	23%	\$ 341,886
2009	469,791	25%	695,226
2010	485,505	46%	1,058,656

Funded Status and Funding Progress. As of December 31, 2009, the actuarial accrued liability for benefits was \$3,946,926, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

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

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

In the December 31, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. Both rates included a percent inflation assumptions. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

Component Unit – Road Commission

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

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

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

Annual OPEB Cost and Net OPEB Obligation. The Road Commission's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Road Commission has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Road Commission.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Progress. For the year ended December 31, 2010, the Road Commission has determined an estimated cost of providing post employment benefits through the alternative measurement method of calculation as of December 31, 2009. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

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

Annual required contribution/Annual OPEB cost (ARC)	\$ 1,348,848
Interest on net OPEB obligation	107,290
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,456,138</u>
Contributions made	<u>(366,793)</u>
Increase in net OPEB obligation	1,089,345
Net OPEB obligation – beginning of year	<u>2,682,247</u>
Net OPEB obligation – end of year	<u>\$ 3,771,592</u>

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 1,715,696	17.96%	\$ 2,682,247
2010	1,456,138	25.19%	3,771,592

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

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

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

Assumptions About Healthcare Costs: The 2007 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 2007 version of the National Health Expenditures (NHE) released in January 2009, centers for Medicare & Medicaid Services, Office of the Actuary.

Other Assumptions and Methods: The inflation rate was assumed to be 4.0%. Based on the historical and expected returns of the Commission's investments, the investment rate of return was assumed to be 6%. The value of Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

NOTE 12 - DEFERRED COMPENSATION PLAN

Primary Government

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

Commission on Aging

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

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

NOTE 12 - DEFERRED COMPENSATION PLAN (Continued)

Component Unit – Road Commission

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

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

Component Unit – Sportsplex

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

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS

Primary Government

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

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

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

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

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, 2010, the balance of the County's member retention was \$138,743.

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

Workers' Compensation

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

At December 31, 2010 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

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

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

Component Unit – Road Commission

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

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

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

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, 2010, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

Component Unit – Ambulance Corporation

The Ambulance Corporation is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ambulance's general liability, property, and vehicle insurance is included in the County's plan. Additional vehicle insurance, health insurance, and workers' compensation is obtained through commercial insurance providers.

At December 31, 2010, there were no claims that exceeded insurance coverage. The Ambulance Corporation had no significant reduction in insurance coverage from previous years.

Component Unit – Sportsplex

The Sportsplex is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Sportsplex's general liability and property insurance is included in the County's plan. Health insurance and workers' compensation is obtained through commercial insurance providers. At December 31, 2010, there were no claims that exceeded insurance coverage. The Sportsplex had no significant reduction in insurance coverage from previous years.

NOTE 14 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2010.

NOTE 15 - STATE EQUIPMENT PURCHASE ADVANCE

Component Unit – Road Commission

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

NOTE 16 - CAPITAL LEASES

Capital Leases – The County leases eight copiers under capital leases with yearly lease payments of \$867 and \$279, including interest rates of 4.4% and 4.8%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present values are as follows:

2011	\$ 13,755
2012	<u>11,461</u>
Total minimum lease payments	25,216
Less amount representing interest	<u>(1,277)</u>
Present value of minimum lease payment	<u>\$ 23,939</u>

Component Unit – EMS Capital Lease – EMS entered into a lease for defibrillators during the fiscal year with yearly lease payments of \$31,578, including interest rate of 14.88%. The lease qualifies as a capital lease for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

2011	\$ 31,587
2012	31,587
2013	<u>15,789</u>
Total minimum lease payments	78,963
Less amount representing interest	<u>(10,227)</u>
Present value of minimum lease payment	<u>\$ 68,736</u>

NOTE 17 - DEFICIT FUND EQUITY BALANCES

A fund equity deficit existed in the following funds as indicated:

Jail Commissary	(1,693)
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The County has a deficit elimination plan, which has been accepted by the Michigan Department of Treasury as required by PA 140 of 1970, as amended.

Required Supplementary Information

Pension:

Primary Government

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

	2007	2008	2009
Actuarial Value of Assets	\$ 10,494,396	\$ 10,999,940	\$ 11,454,248
Actuarial Accrued Liability	14,730,981	15,670,181	15,660,103
Unfunded AAL	4,236,585	4,670,241	4,205,855
Funded Ratio	71%	70%	73%
Covered Payroll	4,412,630	4,441,009	4,426,638
UAAL as a Percentage of Covered Payroll	96%	105%	95%

Road Commission – Component Unit

	2007	2008	2009
Actuarial Value of Assets	\$ 6,588,882	\$ 6,593,589	\$ 6,541,763
Actuarial Accrued Liability	8,539,999	8,917,923	9,253,348
Unfunded AAL	1,951,117	2,324,334	2,711,585
Funded Ratio	77%	74%	71%
Covered Payroll	1,402,311	1,360,494	1,365,098
UAAL as a Percentage of Covered Payroll	139%	171%	199%

Health 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 Percent of Covered Payroll ((b - a) / c)
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Primary Government

2008	\$ -	\$ 3,946,926	\$ 3,946,926	0.0%	Not Available	-
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Road Commission – Component Unit

2009	\$ -	\$ 13,237,628	\$ 13,237,628	0.0%	1,538,759	860%
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**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 4,898,267	\$ 4,898,267	\$ 4,403,401	\$ (494,866)
Licenses and Permits	23,000	23,000	34,787	11,787
Federal Sources	378,917	379,917	405,499	25,582
State Sources	719,301	795,856	707,521	(88,335)
Local Contributions	24,600	24,600	15,805	(8,795)
Charges for Services	774,300	774,300	901,567	127,267
Fines & Forfeits	15,700	15,700	12,041	(3,659)
Interest & Rentals	100,000	100,000	84,209	(15,791)
Other Revenues	263,125	256,031	326,796	70,765
TOTAL REVENUES	7,197,210	7,267,671	6,891,626	(376,045)
EXPENDITURES:				
Legislative:				
Board of Commissioners	187,129	187,129	183,449	3,680
Judicial:				
Circuit Court	1,162,867	1,198,667	1,130,182	68,485
Drug Court	77,705	84,005	62,599	21,406
RDSS Transport	20,000	20,000	8,394	11,606
District Court	65,861	65,861	65,856	5
Friend of the Court	392,085	391,085	390,061	1,024
Jury Commission	22,700	22,700	20,100	2,600
Probate Court	172,436	172,436	170,915	1,521
Family Counseling	4,000	4,000	1,700	2,300
Total judicial	1,917,654	1,958,754	1,849,807	108,947
General Government:				
Administrative Services	266,307	266,307	266,307	-
Building & Grounds	484,306	496,986	495,364	1,622
Clerk and Register of Deeds	302,218	302,218	281,726	20,492
Audit Services	15,572	16,072	16,061	11
IT Department	52,830	52,830	44,335	8,495
Equalization	217,429	244,603	237,157	7,446
Treasurer	102,969	102,969	102,692	277
Cooperative Extension	47,536	47,536	46,470	1,066
Elections	30,752	30,752	14,862	15,890
Prosecuting Attorney	469,623	473,292	466,321	6,971
Surveyor	200	200	200	-
Soil Conservation	4,000	6,047	4,000	2,047
Survey and Remonumentation	20,000	31,957	31,957	-
Total general government	2,013,742	2,071,769	2,007,452	64,317
Public Safety:				
Sheriff	767,158	684,949	598,867	86,082
Civil Division	43,888	43,255	42,151	1,104
SANE	-	5,000	5,000	-
Justice Training	5,500	5,500	1,536	3,964
Marine Safety	13,000	19,000	7,610	11,390
Motorcycle Safety Education	56,800	58,537	41,186	17,351
Snowmobile	12,500	12,444	857	11,587
Secondary Road Patrol	-	54,895	54,879	16
ORV	15,544	17,741	17,631	110
Jail	937,490	970,229	967,475	2,754
Emergency Services	43,578	44,578	39,213	5,365
Total public safety	1,895,458	1,916,128	1,776,405	139,723

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Drains	4,000	8,340	8,340	-
Total public works	4,000	8,340	8,340	-
Health And Welfare:				
Communicable Diseases	500	500	500	-
Medical Examiner	72,283	84,639	84,636	3
District Health	165,000	165,000	165,000	-
Mental Health	94,003	94,003	94,003	-
Homeless Shelter	-	1,000	1,000	-
Veterans' Burial	10,100	14,160	11,507	2,653
Veterans' Affairs	25,323	24,863	24,475	388
Substance Abuse	82,234	82,234	78,804	3,430
Total health and welfare	449,443	466,399	459,925	6,474
Community and Economic Development:				
Planning and Zoning	104,270	94,939	93,348	1,591
Total community and economic development	104,270	94,939	93,348	1,591
Other Expenditures:				
Appropriations	3,500	9,020	8,480	540
Bonds and Insurance	330,922	330,922	319,034	11,888
Retiree Insurance	80,000	87,732	87,732	-
Other	181,089	52,347	45,014	7,333
Total other expenditures	595,511	480,021	460,260	19,761
TOTAL EXPENDITURES	7,167,207	7,183,479	6,838,986	344,493
EXCESS OF REVENUES OVER EXPENDITURES	30,003	84,192	52,640	(31,552)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	477,300	511,347	486,857	(24,490)
Operating Transfers Out	(507,303)	(595,539)	(592,538)	3,001
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	(53,041)	\$ (53,041)
FUND BALANCES, JANUARY 1			1,226,949	
FUND BALANCES, DECEMBER 31			<u>\$ 1,173,908</u>	

County of Otsego, Michigan

Required Supplementary Information
Budgetary Comparison Schedule
M-TEC Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,980,698	\$ 1,980,698	\$ 807,763	\$ (1,172,935)
TOTAL REVENUES	1,980,698	1,980,698	807,763	(1,172,935)
EXPENDITURES:				
Community/Economic Development	1,980,698	1,980,698	808,553	1,172,145
TOTAL EXPENDITURES	1,980,698	1,980,698	808,553	1,172,145
EXCESS OF REVENUES (EXPENDITURES)	\$ -	\$ -	(790)	\$ (790)
FUND BALANCE, JANUARY 1			1,076	
FUND BALANCE, DECEMBER 31			\$ 286	

Required Supplementary Information
 Budgetary Comparison Schedule
 Housing Commission Fund
 For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 202,500	\$ 634,375	\$ 362,859	\$ (271,516)
Local Sources	50,000	157,500	166,701	9,201
Interest and Rentals	1,400	1,400	573	(827)
Other Revenues	46,421	104,961	127,523	22,562
TOTAL REVENUES	<u>300,321</u>	<u>898,236</u>	<u>657,656</u>	<u>(240,580)</u>
EXPENDITURES:				
Community and Economic Development	<u>275,781</u>	<u>799,856</u>	<u>520,912</u>	<u>278,944</u>
TOTAL EXPENDITURES	<u>275,781</u>	<u>799,856</u>	<u>520,912</u>	<u>278,944</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>24,540</u>	<u>98,380</u>	<u>136,744</u>	<u>38,364</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	95,000	95,000	-	(95,000)
Operating Transfers Out	<u>(119,540)</u>	<u>(193,580)</u>	<u>-</u>	<u>193,580</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ (200)</u>	136,744	<u>\$ 136,944</u>
FUND BALANCE, JANUARY 1			<u>114,793</u>	
FUND BALANCE, DECEMBER 31			<u>\$ 251,537</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Commission on Aging
For the Year Ended September 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,250,000	\$ 1,250,000	\$ 1,218,222	\$ (31,778)
Federal Sources	153,442	172,254	171,838	(416)
State Sources	65,386	58,867	58,867	-
Local Contributions	56,000	49,312	43,011	(6,301)
Charges and Services	157,482	157,482	173,664	16,182
Interest and Rentals	11,500	11,500	7,447	(4,053)
Other Revenues	43,000	52,748	57,349	4,601
 TOTAL REVENUES	 <u>1,736,810</u>	 <u>1,752,163</u>	 <u>1,730,398</u>	 <u>(21,765)</u>
EXPENDITURES:				
Health and Welfare	1,776,622	1,775,176	1,720,146	55,030
 TOTAL EXPENDITURES	 <u>1,776,622</u>	 <u>1,775,176</u>	 <u>1,720,146</u>	 <u>55,030</u>
 EXCESS OF REVENUES (EXPENDITURES)	 <u>\$ (39,812)</u>	 <u>\$ (23,013)</u>	 10,252	 <u>\$ 33,265</u>
 FUND BALANCE, OCTOBER 1			 <u>721,044</u>	
 FUND BALANCE, SEPTEMBER 30			 <u>\$ 731,296</u>	

Required Supplementary Information
 Budgetary Comparison Schedule
 Revenue Sharing Reserve Fund
 For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest & Rentals	\$ -	\$ -	\$ 52,543	\$ 52,543
TOTAL REVENUES	-	-	52,543	52,543
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(465,000)	(465,000)	(450,742)	14,258
EXCESS (DEFICIENCY) OF REVENUES OVER OTHER FINANCING USES	\$ (465,000)	\$ (465,000)	(398,199)	\$ 66,801
FUND BALANCE, JANUARY 1			2,396,765	
FUND BALANCE, DECEMBER 31			\$ 1,998,566	

**Required Supplementary Information
Budgetary Comparison Schedule
Public Improvement Fund
For the Year Ended December 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest and Rentals	\$ 30,000	\$ 30,000	\$ 34,871	\$ 4,871
Other Revenues	-	10,500	19,518	9,018
TOTAL REVENUES	30,000	40,500	54,389	13,889
EXPENDITURES:				
Capital Outlay	30,000	40,500	-	40,500
TOTAL EXPENDITURES	30,000	40,500	-	40,500
EXCESS OF REVENUES (EXPENDITURES)	\$ -	\$ -	54,389	\$ 54,389
 FUND BALANCE, JANUARY 1			 1,454,103	
 FUND BALANCE, DECEMBER 31			 <u>\$ 1,508,492</u>	

Required Supplementary Information
 Budgetary Comparison Schedule
 Library Fund
 For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 458,167	\$ 458,167	\$ 433,182	\$ (24,985)
State Sources	30,409	30,409	23,103	(7,306)
Fines & Forfeits	150,000	150,000	193,585	43,585
Interest and Rentals	-	-	9,567	9,567
Other Revenues	187,050	295,752	64,115	(231,637)
TOTAL REVENUES	825,626	934,328	723,552	(210,776)
EXPENDITURES:				
Recreation and Culture	825,626	934,328	934,328	-
TOTAL EXPENDITURES	825,626	934,328	934,328	-
EXCESS OF REVENUES (EXPENDITURES)	\$ -	\$ -	(210,776)	\$ (210,776)
FUND BALANCE, JANUARY 1			669,402	
FUND BALANCE, DECEMBER 31			\$ 458,626	

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Other Supplementary Information

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2010**

	Special Revenue Funds								
	Work Camp	Parks & Recreation	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling	Gypsy Moth Control	Brownfield Redevelopment Authority	Building Department
ASSETS:									
Cash and Equivalents	\$ 54,607	\$ 11,339	\$ 20,923	\$ 482,034	\$ 10,000	\$ -	\$ 155,624	\$ -	\$ 224,260
Investments	-	25,000	-	-	-	-	-	-	-
Taxes Receivable	-	300,846	-	360,352	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Other Governmental Units	4,855	133,401	19,612	-	-	-	-	17,341	-
Inventory	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 59,462	\$ 470,586	\$ 40,535	\$ 842,386	\$ 10,000	\$ -	\$ 155,624	\$ 17,341	\$ 224,260
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,717	\$ -
Accounts Payable	2,956	7,565	1,158	9,777	-	-	-	11,624	3,247
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
Accrued Liabilities	1,035	4,562	1,131	3,840	-	-	-	-	3,169
Deferred Revenues	-	300,846	-	360,352	-	-	-	-	-
TOTAL LIABILITIES	3,991	312,973	2,289	373,969	-	-	-	17,341	6,416
FUND EQUITY:									
Fund Balances:									
Reserved for Inventory	-	-	-	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	-	-	-
Reserved for Capital Expenditures	-	-	-	-	-	-	-	-	-
Unreserved-									
Undesignated	55,471	157,613	38,246	468,417	10,000	-	155,624	-	217,844
TOTAL FUND EQUITY	55,471	157,613	38,246	468,417	10,000	-	155,624	-	217,844
TOTAL LIABILITIES AND FUND EQUITY	\$ 59,462	\$ 470,586	\$ 40,535	\$ 842,386	\$ 10,000	\$ -	\$ 155,624	\$ 17,341	\$ 224,260

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2010**

	Special Revenue Funds								
	Register of Deeds Automation Fund	Budget Stabilization Fund	Legal Defense	Emergency 911 Funds	Homeland Security Grant	Local Officers Training	Law Library	Department of Human Services	Child Care Probate
ASSETS:									
Cash and Equivalents	\$ 15,042	\$ -	\$ 102,304	\$ 335,508	\$ -	\$ 17,270	\$ 4,278	\$ 6,484	\$ 363,153
Investments	-	1,046,403	-	-	114,671	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Other Governmental Units	35	-	-	160,110	29,373	640	2,046	-	161,359
Inventory	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 15,077	\$ 1,046,403	\$ 102,304	\$ 495,618	\$ 144,044	\$ 17,910	\$ 6,324	\$ 6,484	\$ 524,512
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	490	12,699	143,207	300	358	-	30,226
Due to Other Governmental Units	-	-	-	-	-	-	-	-	159,303
Accrued Liabilities	-	-	-	13,452	-	-	-	-	3,792
Deferred Revenues	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	490	26,151	143,207	300	358	-	193,321
FUND EQUITY:									
Fund Balances:									
Reserved for Inventory	-	-	-	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	-	-	-
Reserved for Capital Expenditures	-	-	-	-	-	-	-	-	-
Unreserved-									
Undesignated	15,077	1,046,403	101,814	469,467	837	17,610	5,966	6,484	331,191
TOTAL FUND EQUITY	15,077	1,046,403	101,814	469,467	837	17,610	5,966	6,484	331,191
TOTAL LIABILITIES AND FUND EQUITY	\$ 15,077	\$ 1,046,403	\$ 102,304	\$ 495,618	\$ 144,044	\$ 17,910	\$ 6,324	\$ 6,484	\$ 524,512

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2010**

	Special Revenue Funds					Debt Service Fund	Capital Project Funds		
	Soldiers and Sailors Relief	Veteran's Trust	Airport	Airport Special Events	Bradford Lake Dam	Equipment Revolving	Debt Service	Financial Information System	Animal Control Shelter Building
ASSETS:									
Cash and Equivalents	\$ 17,641	\$ 419	\$ 48,924	\$ 6,481	\$ 20,667	\$ 10,975	\$ 47,435	\$ -	\$ 476,719
Investments	-	-	-	-	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	11,206	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	1,400	-	-	-
Due from Other Governmental Units	-	-	-	-	-	-	1,975	-	-
Inventory	-	-	18,869	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 17,641</u>	<u>\$ 419</u>	<u>\$ 78,999</u>	<u>\$ 6,481</u>	<u>\$ 20,667</u>	<u>\$ 12,375</u>	<u>\$ 49,410</u>	<u>\$ -</u>	<u>\$ 476,719</u>
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ 1,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	35	-	29,564	30	-	4,772	-	-	11,113
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
Accrued Liabilities	-	-	4,649	-	-	-	-	-	-
Deferred Revenues	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>35</u>	<u>-</u>	<u>35,613</u>	<u>30</u>	<u>-</u>	<u>4,772</u>	<u>-</u>	<u>-</u>	<u>11,113</u>
FUND EQUITY:									
Fund Balances:									
Reserved for Inventory	-	-	10,884	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	49,410	-	-
Reserved for Capital Expenditures	-	-	-	-	-	7,603	-	-	465,606
Unreserved- Undesignated	17,606	419	32,502	6,451	20,667	-	-	-	-
TOTAL FUND EQUITY	<u>17,606</u>	<u>419</u>	<u>43,386</u>	<u>6,451</u>	<u>20,667</u>	<u>7,603</u>	<u>49,410</u>	<u>-</u>	<u>465,606</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 17,641</u>	<u>\$ 419</u>	<u>\$ 78,999</u>	<u>\$ 6,481</u>	<u>\$ 20,667</u>	<u>\$ 12,375</u>	<u>\$ 49,410</u>	<u>\$ -</u>	<u>\$ 476,719</u>

	Capital Project Funds				Total
	Library Building	Court Restoration Building	Airport Construction	Capital Projects	
ASSETS:					
Cash and Equivalents	\$ 12,571	\$ 16,838	\$ 41,137	\$ 170,000	\$ 2,672,633
Investments	500,000	-	-	22,171	1,708,245
Taxes Receivable	-	-	-	-	661,198
Accounts Receivable	-	-	-	-	11,206
Due from Other Funds	-	-	-	-	1,400
Due from Other Governmental Units	-	-	-	76,015	606,762
Inventory	-	-	-	-	18,869
TOTAL ASSETS	\$ 512,571	\$ 16,838	\$ 41,137	\$ 268,186	\$ 5,680,313
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 7,117
Accounts Payable	-	-	-	-	269,121
Due to Other Governmental Units	-	-	-	-	159,303
Accrued Liabilities	-	-	-	-	35,630
Deferred Revenues	-	-	-	-	661,198
TOTAL LIABILITIES	-	-	-	-	1,132,369
FUND EQUITY:					
Fund Balances:					
Reserved for Inventory	-	-	-	-	10,884
Reserved for Debt Service	-	-	-	-	49,410
Reserved for Capital Expenditures	512,571	-	-	268,186	1,253,966
Unreserved-					
Undesignated	-	16,838	41,137	-	3,233,684
TOTAL FUND EQUITY	512,571	16,838	41,137	268,186	4,547,944
TOTAL LIABILITIES AND FUND EQUITY	\$ 512,571	\$ 16,838	\$ 41,137	\$ 268,186	\$ 5,680,313

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2010

	Special Revenue Funds								
	Work Camp	Parks & Recreation	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling	Gypsy Moth Control	Brownfield Redevelopment Authority	Building Department
REVENUES:									
Taxes	\$ -	\$ 296,704	\$ -	\$ 361,604	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	43,321	-	-	-	-	-	-
State Sources	4,860	133,401	-	-	-	-	-	421,074	-
Local Contributions	-	-	-	-	-	-	-	-	-
Charges for Services	43,161	160,281	8,430	37,701	-	-	-	-	343,994
Fines & Forfeits	20	-	-	4,182	-	-	-	-	-
Interest & Rentals	-	4,035	-	6,509	-	-	4,500	-	88
Other Revenues	432	16,887	-	17,199	-	2,000	-	154	1,023
TOTAL REVENUES	48,473	611,308	51,751	427,195	-	2,000	4,500	421,228	345,105
EXPENDITURES:									
Judicial	-	-	70,587	-	-	-	-	-	-
General Government	-	-	-	-	-	8,975	-	-	-
Public Safety	120,581	-	-	275,801	70	-	-	-	252,028
Public Works	-	-	-	-	-	-	-	773,375	-
Health And Welfare	-	-	-	-	-	-	11,230	-	-
Recreation and Culture	-	657,400	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	120,581	657,400	70,587	275,801	70	8,975	11,230	773,375	252,028
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(72,108)	(46,092)	(18,836)	151,394	(70)	(6,975)	(6,730)	(352,147)	93,077
OTHER FINANCING SOURCES (USES):									
Advance Refunding	-	-	-	-	-	-	-	-	-
Advance Refunding Proceeds	-	-	-	-	-	-	-	-	-
Operating Transfers In	67,250	-	1,000	6,108	-	6,975	-	-	-
Operating Transfers Out	-	-	-	-	(6,108)	-	-	-	(6,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(4,858)	(46,092)	(17,836)	157,502	(6,178)	-	(6,730)	(352,147)	87,077
FUND BALANCES (DEFICIT), JANUARY 1	60,329	203,705	56,082	310,915	16,178	-	162,354	352,147	130,767
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 55,471	\$ 157,613	\$ 38,246	\$ 468,417	\$ 10,000	\$ -	\$ 155,624	\$ -	\$ 217,844

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2010

	Special Revenue Funds								
	Register of Deeds Automation Fund	Budget Stabilization Fund	Legal Defense	Emergency 911 Funds	Homeland Security Grant	Local Officers Training	Law Library	Department of Human Services	Child Care Probate
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	-	-	216,187	-	-	-	12,330
State Sources	-	-	-	-	-	-	-	-	190,353
Local Contributions	-	-	-	-	-	-	-	-	-
Charges for Services	39,029	-	-	676,412	-	3,454	-	-	-
Fines & Forfeits	-	-	-	-	-	-	-	-	23
Interest & Rentals	11	15,926	-	1,070	31	-	-	-	-
Other Revenues	3,500	-	-	4,736	-	-	3,500	5,126	89,229
TOTAL REVENUES	42,540	15,926	-	682,218	216,218	3,454	3,500	5,126	291,935
EXPENDITURES:									
Judicial	-	-	-	-	-	-	1,790	-	-
General Government	34,175	-	44,105	-	-	-	-	-	-
Public Safety	-	-	-	510,649	215,381	3,728	-	-	-
Public Works	-	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	-	-	-	5,032	618,362
Recreation and Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	34,175	-	44,105	510,649	215,381	3,728	1,790	5,032	618,362
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,365	15,926	(44,105)	171,569	837	(274)	1,710	94	(326,427)
OTHER FINANCING SOURCES (USES):									
Advance Refunding	-	-	-	-	-	-	-	-	-
Advance Refunding Proceeds	-	-	-	-	-	-	-	-	-
Operating Transfers In	-	100,000	50,000	-	-	-	-	-	200,000
Operating Transfers Out	-	-	-	(27,300)	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	8,365	115,926	5,895	144,269	837	(274)	1,710	94	(126,427)
FUND BALANCES (DEFICIT), JANUARY 1	6,712	930,477	95,919	325,198	-	17,884	4,256	6,390	457,618
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 15,077	\$ 1,046,403	\$ 101,814	\$ 469,467	\$ 837	\$ 17,610	\$ 5,966	\$ 6,484	\$ 331,191

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2010

	Special Revenue Funds					Debt Service Fund	Capital Project Funds		
	Soldiers and Sailors Relief	Veteran's Trust	Airport	Airport Special Events	Bradford Lake Dam	Equipment Revolving	Jail Debt Service	Financial Information System	Animal Control Shelter Building
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	-	-	-	-	-	-	-
State Sources	-	495	-	-	-	-	-	-	-
Local Contributions	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	755,067	-	-	-	6,708	-	-
Fines & Forfeits	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	80,561	-	13	1,426	123,302	-	7,693
Other Revenues	1,470	-	68,875	2,460	-	5,862	231,375	-	2,282
TOTAL REVENUES	1,470	495	904,503	2,460	13	7,288	361,385	-	9,975
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-
Public Works	-	-	1,056,833	1,862	-	-	-	-	-
Health And Welfare	3,750	748	-	-	-	-	-	-	-
Recreation and Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	66,026	-	-	100,528
Debt Service	-	-	-	-	-	-	394,115	-	-
TOTAL EXPENDITURES	3,750	748	1,056,833	1,862	-	66,026	394,115	-	100,528
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,280)	(253)	(152,330)	598	13	(58,738)	(32,730)	-	(90,553)
OTHER FINANCING SOURCES (USES):									
Advance Refunding	-	-	-	-	-	-	(1,860,000)	-	-
Advance Refunding Proceeds	-	-	-	-	-	-	1,860,000	-	-
Operating Transfers In	5,000	-	190,440	5,853	-	26,469	40,873	-	-
Operating Transfers Out	-	-	(5,853)	-	-	(4,415)	-	(1,469)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	2,720	(253)	32,257	6,451	13	(36,684)	8,143	(1,469)	(90,553)
FUND BALANCES (DEFICIT), JANUARY 1	14,886	672	11,129	-	20,654	44,287	41,267	1,469	556,159
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 17,606	\$ 419	\$ 43,386	\$ 6,451	\$ 20,667	\$ 7,603	\$ 49,410	\$ -	\$ 465,606

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2010

Capital Project Funds

	Library Building	Court Restoration Building	Airport Construction	Capital Project	Total
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 658,308
Federal Sources	-	-	1,162,553	76,015	1,510,406
State Sources	-	-	37,872	-	788,055
Local Contributions	-	-	30,733	-	30,733
Charges for Services	-	56,245	-	-	2,130,482
Fines & Forfeits	-	-	-	-	4,225
Interest & Rentals	2,833	-	-	2,317	250,315
Other Revenues	-	-	-	-	456,110
TOTAL REVENUES	2,833	56,245	1,231,158	78,332	5,828,634
EXPENDITURES:					
Judicial	-	-	-	-	72,377
General Government	-	-	-	-	87,255
Public Safety	-	-	-	-	1,378,238
Public Works	-	-	-	-	1,832,070
Health And Welfare	-	-	-	-	639,122
Recreation and Culture	-	-	-	-	657,400
Capital Outlay	-	13,785	1,229,915	131,561	1,541,815
Debt Service	-	-	-	-	394,115
TOTAL EXPENDITURES	-	13,785	1,229,915	131,561	6,602,392
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,833	42,460	1,243	(53,229)	(773,758)
OTHER FINANCING SOURCES (USES):					
Advance Refunding	-	-	-	-	(1,860,000)
Advance Refunding Proceeds	-	-	-	-	1,860,000
Operating Transfers In	-	-	600	170,000	870,568
Operating Transfers Out	-	-	-	-	(51,145)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	2,833	42,460	1,843	116,771	45,665
FUND BALANCES (DEFICIT), JANUARY 1	509,738	(25,622)	39,294	151,415	4,502,279
FUND BALANCES (DEFICIT), DECEMBER 31	<u>\$ 512,571</u>	<u>\$ 16,838</u>	<u>\$ 41,137</u>	<u>\$ 268,186</u>	<u>\$ 4,547,944</u>

Combining Statement of Nets Assets
Internal Service Funds
December 31, 2010

	Building and Grounds	Administrative Services	Health Care	Total
ASSETS:				
Current Assets:				
Cash and Equivalents	\$ 330,601	\$ 64,788	\$ -	\$ 395,389
Investments	-	-	510,144	510,144
Accounts Receivable	3,140	-	735	3,875
Due from Governmental Units	657	-	-	657
Inventory	-	325	-	325
TOTAL ASSETS	<u>\$ 334,398</u>	<u>\$ 65,113</u>	<u>\$ 510,879</u>	<u>\$ 910,390</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 50,465	\$ 2,769	\$ 5,559	\$ 58,793
Accrued Liabilities	-	2,515	-	2,515
TOTAL LIABILITIES	<u>50,465</u>	<u>5,284</u>	<u>5,559</u>	<u>61,308</u>
NET ASSETS:				
Unrestricted	<u>283,933</u>	<u>59,829</u>	<u>505,320</u>	<u>849,082</u>
TOTAL NET ASSETS	<u>283,933</u>	<u>59,829</u>	<u>505,320</u>	<u>849,082</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 334,398</u>	<u>\$ 65,113</u>	<u>\$ 510,879</u>	<u>\$ 910,390</u>

Combining Statement of Revenues, Expenses, and Changes
in Net Assets - Internal Service Funds
For the Year Ended December 31, 2010

	Building and Grounds	Administrative Services	Health Care	Total
OPERATING REVENUES:				
Charges for Services	\$ 579,075	\$ 427,575	\$ 1,052,279	\$ 2,058,929
Other	313	-	-	313
TOTAL OPERATING REVENUES	579,388	427,575	1,052,279	2,059,242
OPERATING EXPENSES:				
Salaries, Wages, and Fringe Benefits	-	359,768	-	359,768
Contractual Services	1,060	1,320	-	2,380
Materials and Supplies	-	2,168	-	2,168
Equipment Repair and Maintenance	90,660	2,706	-	93,366
Utilities	219,417	-	-	219,417
Other	234,506	16,113	1,052,453	1,303,072
TOTAL OPERATING EXPENSES	545,643	382,075	1,052,453	1,980,171
OPERATING INCOME (LOSS)	33,745	45,500	(174)	79,071
Non Operating Revenues (Expenses):				
Interest Earnings	-	-	1,115	1,115
Changes in Net Assets	33,745	45,500	941	80,186
Net Assets - January 1, 2010	250,188	14,329	504,379	768,896
Net Assets - December 31, 2010	\$ 283,933	\$ 59,829	\$ 505,320	\$ 849,082

County of Otsego, Michigan

Combining Statement of Cash Flows Internal Service Funds For the Year Ended December 31, 2010

	Building and Grounds	Administrative Services	Health Care	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 578,759	\$ 427,575	\$ 1,056,165	\$ 2,062,499
Payments to Suppliers	(544,889)	(20,731)	(1,054,835)	(1,620,455)
Payments to Employees for Services and Benefits	-	(359,978)	-	(359,978)
Net Cash Provided (Used) by Operating Activities	<u>33,870</u>	<u>46,866</u>	<u>1,330</u>	<u>82,066</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	-	-	1,115	1,115
Net Sale or (Purchase) of Investments	-	-	(2,445)	(2,445)
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>-</u>	<u>(1,330)</u>	<u>(1,330)</u>
Net Increase (Decrease) in Cash and Equivalents	33,870	46,866	-	80,736
Balances - Beginning of the Year	<u>296,731</u>	<u>17,922</u>	<u>-</u>	<u>314,653</u>
Balances - End of the Year	<u>\$ 330,601</u>	<u>\$ 64,788</u>	<u>\$ -</u>	<u>\$ 395,389</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 33,745	\$ 45,500	\$ (174)	\$ 79,071
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Accounts Receivable	(629)	-	3,886	3,257
Inventory	136	-	-	136
Accounts Payable	618	1,576	(2,382)	(188)
Accrued Liabilities	-	(210)	-	(210)
Net Cash Provided (Used) by Operating Activities	<u>\$ 33,870</u>	<u>\$ 46,866</u>	<u>\$ 1,330</u>	<u>\$ 82,066</u>

County of Otsego, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2010

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
ASSETS:						
Current Assets:						
Cash and Equivalents	\$ 353,939	\$ 40,911	\$ 16,464	\$ 466	\$ 32,635	\$ 444,415
Investments	105,000	-	-	-	-	105,000
Total Current Assets	458,939	40,911	16,464	466	32,635	549,415
Noncurrent Assets:						
Capital Assets (Net of Accumulated Depreciation)	-	-	159,886	-	-	159,886
TOTAL ASSETS	\$ 458,939	\$ 40,911	\$ 176,350	\$ 466	\$ 32,635	\$ 709,301
LIABILITIES:						
Current Liabilities:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ 2,000	\$ -	\$ 2,000
Accrued Liabilities	778	-	-	-	-	778
Accounts Payable	-	1,328	-	159	-	1,487
TOTAL LIABILITIES	778	1,328	-	2,159	-	4,265
NET ASSETS:						
Invested in Capital Assets	-	-	159,886	-	-	159,886
Unrestricted	458,161	39,583	16,464	(1,693)	32,635	545,150
TOTAL NET ASSETS	\$ 458,161	\$ 39,583	\$ 176,350	\$ (1,693)	\$ 32,635	\$ 705,036

**Combining Statement of Revenues, Expenses, and Changes
in Net Assets - Nonmajor Enterprise Funds
For the Year Ended December 31, 2010**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
OPERATING REVENUES:						
Local Sources	\$ -	\$ 7,000	\$ -	\$ -	\$ -	\$ 7,000
Charges for Services	118,690	29,775	36,464	3,570	3,559	192,058
Other Revenues	17,641	-	-	-	-	17,641
TOTAL OPERATING REVENUES	136,331	36,775	36,464	3,570	3,559	216,699
OPERATING EXPENSES:						
Salaries, Wages, and Fringe Benefits	21,312	-	-	-	-	21,312
Contractual Services	-	35,390	-	953	300	36,643
Materials and Supplies	4,495	242	-	3,210	1,500	9,447
Depreciation	-	-	12,297	-	-	12,297
Other Expenses	2,396	38,339	79,082	1,440	1,150	122,407
TOTAL OPERATING EXPENSES	28,203	73,971	91,379	5,603	2,950	202,106
OPERATING INCOME (LOSS)	108,128	(37,196)	(54,915)	(2,033)	609	14,593
NON OPERATING REVENUES (EXPENSES):						
Interest Earnings	96	-	25	-	20,031	20,152
INCOME (LOSS) BEFORE TRANSFERS	108,224	(37,196)	(54,890)	(2,033)	20,640	34,745
Operating Transfers In	-	37,000	-	-	-	37,000
Changes in Net Assets	108,224	(196)	(54,890)	(2,033)	20,640	71,745
Net Assets - January 1, 2010	349,937	39,779	231,240	340	11,995	633,291
Net Assets - December 31, 2010	<u>\$ 458,161</u>	<u>\$ 39,583</u>	<u>\$ 176,350</u>	<u>\$ (1,693)</u>	<u>\$ 32,635</u>	<u>\$ 705,036</u>

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2010**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from Customers	\$ 136,331	\$ 36,775	\$ 36,464	\$ 3,570	\$ 3,559	\$ 216,699
Payments to Suppliers	(30,000)	(74,985)	(79,082)	(4,383)	(3,497)	(191,947)
Net Cash Provided (Used) by Operating Activities	<u>106,331</u>	<u>(38,210)</u>	<u>(42,618)</u>	<u>(813)</u>	<u>62</u>	<u>24,752</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:						
Operating Transfers In	-	37,000	-	-	-	37,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>-</u>	<u>37,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Net Sale or (Purchase) of Investments	(105,000)	-	-	-	-	(105,000)
Interest Earnings	96	-	25	-	20,031	20,152
Net Cash Provided (Used) by Investing Activities	<u>(104,904)</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>20,031</u>	<u>(84,848)</u>
Net Increase (Decrease) in Cash and Equivalents	1,427	(1,210)	(42,593)	(813)	20,093	(23,096)
Balances - Beginning of the Year	<u>352,512</u>	<u>42,121</u>	<u>59,057</u>	<u>1,279</u>	<u>12,542</u>	<u>467,511</u>
Balances - End of the Year	<u>\$ 353,939</u>	<u>\$ 40,911</u>	<u>\$ 16,464</u>	<u>\$ 466</u>	<u>\$ 32,635</u>	<u>\$ 444,415</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	\$ 108,128	\$ (37,196)	\$ (54,915)	\$ (2,033)	\$ 609	\$ 14,593
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	-	-	12,297	-	-	12,297
Change in Assets and Liabilities:						
Due to other funds	-	-	-	2,000	-	2,000
Accrued Liabilities	143	-	-	-	(407)	(264)
Accounts Payable	(1,940)	(1,014)	-	(780)	(140)	(3,874)
Net Cash Provided (Used) by Operating Activities	<u>\$ 106,331</u>	<u>\$ (38,210)</u>	<u>\$ (42,618)</u>	<u>\$ (813)</u>	<u>\$ 62</u>	<u>\$ 24,752</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan, as of and for the year ended December 31, 2010, which collectively comprise the County of Otsego, Michigan's basic financial statements and have issued our report thereon, dated May 10, 2011. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Otsego County Road Commission and the Otsego County Commission on Aging, as described in our report on the County of Otsego, Michigan'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, we considered the County of Otsego Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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.

Members of the Board
County of Otsego, Michigan

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of the County of Otsego, Michigan in a separate letter dated May 10, 2011.

Otsego County's response to the finding identified in our audit is described in the accompanying schedule of prior year audit findings. We did not audit Otsego County's response and, accordingly, we express no opinion on it.

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 10, 2011



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the County of Otsego, Michigan's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2010. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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. 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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Otsego, Michigan complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 10, 2011

County of Otsego, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through programs from Northeast Michigan Community Service Agency, Inc.			
Nutrition Services Incentive-Title III C1	10.570	N/A	\$ 15,355
Nutrition Services Incentive-Title III C2	10.570	N/A	24,628
Total U.S. Department of Agriculture			39,983
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass-through programs from the Michigan State Housing Development Authority:			
CDBG	14.228	MSC-2008-0812-HO	277,279
CDBG	14.228	MSC-2009-0812-HOA	85,580
Total U.S. Department of Housing and Urban Development			362,859
U.S. DEPARTMENT OF JUSTICE:			
Direct Award:			
Bulletproof Vest Grant	16.607	N/A	2,628
Pass-through programs from the Michigan Department of Human Services:			
Juvenile Accountability Incentive Block Grant - 02/01/09 to 01/31/10	16.523	JABGN-09-20001	1,053
Juvenile Accountability Incentive Block Grant - 02/01/10 to 01/31/11	16.523	JABGN-10-20001	11,277
Total U.S. Department of Justice			14,958
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from the Michigan Supreme Court:			
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	SCAO-2009-077	61,593
Pass-through programs from the Michigan Department of Transportation:			
Airport Project - State Administered	20.205	09-0466	1,023,208
Airport Project - State Administered	20.205	08-0405	110,994
Airport Project - State Administered	20.205	10-0447	28,351
Operating Grant - Section 5311	20.509	2007-0276-Z1/R1	252,452
Road Project - State Administered	20.205	N/A	448,566
Road Project - Local Administered	20.205	N/A	16,877
Subtotal -MDOT			1,880,448
Total U.S. Department of Transportation			1,942,041
U.S. DEPARTMENT OF EDUCATION:			
Pass-through programs from the Michigan Department of Energy, Labor, & Economic Growth:			
Pass-through program from Presque Isle County:			
Energy Efficiency & Conservation Multi-purpose Block Grant	81.128	BES-10-146	76,015
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs from the Michigan Department of Human Services:			
Incentive Reimbursement	93.563	N/A	40,712
PA CRP Title IV-D - 10/1/09 to 9/30/12	93.563	CS/PA-10-69002	27,956
FOC CRP Title IV-D - 10/1/09 to 9/30/12	93.563	CS/FOC-10-16002	288,808
Subtotal -MDHS			357,476
Pass-through programs from the Michigan Office of Services to the Aging:			
Pass-through Northeast Michigan Community Services Agency, Inc., Special Programs for the Aging:			
Title III Part B - Supportive Services and Senior Centers			
Respite	93.044	N/A	2,000
Homemaker	93.044	N/A	12,411
Personal Care	93.044	N/A	10,194
Title III Part C - Nutrition Services			
Congregate Meals	93.045	N/A	40,238
Home Delivered Meals	93.045	N/A	16,841

County of Otsego, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: (Continued)			
Title III Part E - National Family Caregiver Support			
Support Group	93.052	N/A	1,800
Respite (Up & Go)	93.052	N/A	1,850
Respite	93.052	N/A	4,000
Resource Room	93.052	N/A	2,000
Grandparents Kinship	93.052	N/A	1,650
NFCSP Parkinson Group	93.052	N/A	1,500
NFCSP Kindship (Grandparents)	93.052	N/A	750
Elder Abuse	93.052	N/A	1,000
Savvy Caregiver - Demo Grant	93.052	N/A	4,043
Medicaid Waiver	93.778	N/A	31,578
Subtotal - NEMCSA, Inc.			<u>131,855</u>
Total U.S. Department of Health and Human Services			<u>489,331</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through programs from the Michigan Department of Natural Resources:			
Marine Safety Grant	97.012	N/A	<u>5,000</u>
Pass-through programs from the Michigan Department of State			
Police, Emergency Management Division:			
Emergency Management Performance Grants 10/01/09-09/30/10	97.042	N/A	22,123
Firefighters Grant	97.044	EMW-2009-FO-02682	59,850
2008 State Homeland Security Grant	97.067	N/A	<u>216,187</u>
Subtotal - MDSP, EMD			<u>298,160</u>
Total U.S. Department of Homeland Security			<u>303,160</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,228,347</u></u>

NOTE A - BASIS OF PRESENTATION

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

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Justice which provided the greatest amount of direct federal funding to the County during 2010.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement:	
Government Funds	\$ 2,450,602
Enterprise Funds:	
Operating	252,452
Component Unit	<u>525,293</u>
Total Federal Expenditures	<u>\$ 3,228,347</u>

NOTE D - AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2010, the Federal aid received and expended by the Airport was \$1,162,553 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.

NOTE E - ROAD COMMISSION GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2010, the Federal aid received and expended by the Road Commission was \$448,566 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 road commission, as they are included in MDOT's Single Audit.

During the calendar year ended December 31, 2010, the Road Commission received one federal negotiated project totaling \$16,877. Negotiated projects are projects that are performed by the Road Commission and are subject to Single Audit requirements.

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

93.563	Child Support Enforcement
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?	Yes

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

Although the following are not considered material weaknesses in internal control, we wish to point out certain other significant deficiencies for consideration by the management of Otsego County.

General Inmate Fund Bank Account Reconciliation

Finding 04-2

Condition: The general inmate fund bank account balance is not properly reconciled monthly to the checkbook balance administered by jail personnel.

Criteria: All bank accounts must be reconciled in a timely manner and reconciled to subsidiary records. The reconciliation must contain a listing of deposits in transit and outstanding checks. All discrepancies must be investigated.

Recommendation: We recommend that the bank balance be reconciled to the checkbook balance and the checkbook balance be reconciled to the total inmate account balances, after all commissions earned from commissary sales are transmitted to the county treasurer. And discrepancies should be investigated and corrected promptly. This should be done monthly on a timely basis.

- Contact Person(s) Responsible for Correction
James McBride, County Sheriff

- Corrective Action Planned

In the matter concerning reconciliation, the corrective action being implemented will be in compliance with the auditor's recommendation. Monthly, the inmate checking account checkbook will be balanced with the monthly bank statement and account balances, the bank account has been changed to a business account to aid in the process. Also, a new software program (Swanson Cobra Banker) has been installed and implemented. The new software allows easier bank reconciliation.

- Anticipated Completion Date

In accordance with this recommendation, this will be done monthly in a timely manner.

Status: Corrected.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

ROBERT L. HASKE, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan for the year ended December 31, 2010, and have issued our report thereon dated May 10, 2011. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated November 5, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 5, 2010.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

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

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate to determine that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$977,100.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 10, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Comments and Recommendations

Inventory (Prior Year)

The airport fuel inventory recorded on the general ledger has not been updated at year end. We recommend that the inventory balance be updated periodically to an actual count.

Status: Uncorrected.

Sportsplex and EMS Payroll (Prior Year)

In our testing of payroll, it was noted that some employees did not have Form I-9 or Michigan New Hire forms in their personnel files. Also, there were a few employees that didn't have signed time sheets. It is recommended employees hired after November 6, 1986 have a completed Form I-9 included in their personnel file and employees hired after October 1, 1997 have a completed Michigan New Hire form in their personnel file and that all time sheets be signed by their supervisor.

Status: Uncorrected.

Taxes Receivable and Revenue (Prior Year)

During our testing of tax revenue and taxes receivable, an audit adjustment of \$200,980 was required to properly accrue property taxes in the General Fund. The County should accrue property taxes annually without auditor intervention.

Status: Uncorrected.

Accrual Based Accounting (Prior Year)

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

Status: Uncorrected.

Bond Account (Prior Year)

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

Status: Uncorrected.

Inmate Trust Account (Prior Year)

While testing the inmate trust account, it was noted that there were checks issued to stock the commissary supplies. This account should only be used for inmate purchases of commissary supplies, bail and release checks. Stocking of the commissary supplies should be paid out of the Jail Commissary fund. It was also noted during testing that the inmate trust account is incurring overdraft charges on a regular basis. It is recommended that the County oversee this account more thoroughly to ensure that it is managed properly and unnecessary overdraft charges are not incurred.

Status: Uncorrected.

GASB 54 Fund Balance Components (Prior Year)

The Governmental Accounting Standards Board has issued a new pronouncement, GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions. GASB #54 eliminates the current use of the terms reserved and designated in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance. The Standard is effective for periods beginning after June 15, 2010.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** – Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.
- **Restricted** – Reflects the same definition as Restricted net assets: Constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds and debt service funds.
- **Committed** – Includes amounts that are committed for specific purposes by formal action of the government's highest level of decision-making authority. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously imposed the limitation.
- **Assigned** – Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policies established by the board. This would include ANY activity reported in a fund other than the General Fund.

- **Unassigned** – Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year’s budget would be included here and can no longer be described as “designated”.

The Standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage the County to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements.

Status: The County is working on implementing in 2011.

Expenses - Homeland Security Grant

During testing it was noted that several meal expense reimbursements did not have a detailed receipt attached, only a summary of charges. It was also noted that one receipt that was reimbursed included a minimal amount for alcohol. Care should be taken when reviewing receipts to ensure that only qualifying expenditures be reimbursed by the grant funds.

Trust & Agency

During testing of the accounts payable of the Trust and Agency Fund it was noted that payments in lieu of tax disbursements were booked as accounts payable. It is recommended that payments in lieu of tax disbursements be booked more appropriately as a liability.

Supplies and Repair and Maintenance Accounts

Currently there are several supplies and repair & maintenance accounts that capital expenditures are being run through. This was done to separate several special circumstances that management wanted to view separately (grant expenditures and contractual buildings and grounds). It is recommended that the County still use the capital outlay accounts for all capital expenditures instead of running these expenditures through the supplies and repair and maintenance accounts.

Cash

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

DTRF Investment

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

Bank Account Reconciliations

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

Conclusion

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

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

Anderson Tackman & Co PLC

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

May 10, 2011