

**County of Otsego, Michigan**

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**BASIC FINANCIAL STATEMENTS**

**December 31, 2011**

**COUNTY OF OTSEGO, MICHIGAN**

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Prosecuting Attorney

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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

ROBERT L. HASKE, CPA  
AMBER N. MACK, CPA, EA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

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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, 2011, 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 6% 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, 2011, 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 June 11, 2012 on our consideration of the County of Otsego's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 10, page 59 and pages 60 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Otsego, Michigan's financial statements as a whole. The combining major and nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. 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 also not a required part of the financial statements. The combining major and nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



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

June 11, 2012

## **Management's Discussion and Analysis**

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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, 2011. 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 \$37,757,811 (*net assets*). Of this amount, \$14,892,002 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net assets were \$28,106,667.
- Business-type activity net assets were \$9,651,144.
- Component Unit net assets were \$18,913,098.

There were increases of \$1,128,703 and \$294,572 in net assets in the Governmental Activities and Business-Type Activities, respectively. A decrease of \$1,070,283 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	
	2011	2010	2011	2010	2011	2010
Current Assets	\$ 14,786,150	\$ 15,873,611	\$ 8,597,993	\$ 8,221,241	\$ 23,384,143	\$ 24,094,852
Noncurrent Assets	<u>19,261,460</u>	<u>17,883,010</u>	<u>1,156,870</u>	<u>1,218,603</u>	<u>20,418,330</u>	<u>19,101,613</u>
Total Assets	<u>\$ 34,047,610</u>	<u>\$ 33,756,621</u>	<u>\$ 9,754,863</u>	<u>\$ 9,439,844</u>	<u>\$ 43,802,473</u>	<u>\$ 43,196,465</u>
Current Liabilities	\$ 2,296,256	\$ 3,021,506	\$ 103,719	\$ 83,272	\$ 2,399,975	\$ 3,104,778
Noncurrent Liabilities	<u>3,644,687</u>	<u>3,757,151</u>	<u>-</u>	<u>-</u>	<u>3,644,687</u>	<u>3,757,151</u>
Total Liabilities	<u>5,940,943</u>	<u>6,778,657</u>	<u>103,719</u>	<u>83,272</u>	<u>6,044,662</u>	<u>6,861,929</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	16,546,646	14,778,132	1,156,870	1,220,603	17,703,516	15,998,735
Restricted	5,162,293	7,454,965	-	-	5,162,293	7,454,965
Unrestricted	<u>6,397,728</u>	<u>4,744,867</u>	<u>8,494,274</u>	<u>8,135,969</u>	<u>14,892,002</u>	<u>12,880,836</u>
Total Net Assets	<u>\$ 28,106,667</u>	<u>\$ 26,977,964</u>	<u>\$ 9,651,144</u>	<u>\$ 9,356,572</u>	<u>\$ 37,757,811</u>	<u>\$ 36,334,536</u>

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Program Revenues</b>						
Charges for Services	\$ 4,245,757	\$ 4,353,406	\$ 1,031,767	\$ 1,015,035	\$ 5,277,524	\$ 5,368,441
Operating Grants and Contributions	4,401,884	2,594,023	907,449	809,330	5,309,333	3,403,353
Capital Grants and Contributions	649,176	1,690,375	109,945	64,641	759,121	1,755,016
<b>General Revenues</b>						
Property Taxes	7,565,163	7,520,876	293,016	302,190	7,858,179	7,823,066
Unrestricted Investment Earnings (Loss)	309,859	257,576	14,987	94,147	324,846	351,723
Other Revenue	667,128	629,137	182,459	74,100	849,587	703,237
Transfers	108,000	263,000	(108,000)	(263,000)	-	-
<b>Total Revenues</b>	<u>17,946,967</u>	<u>17,308,393</u>	<u>2,431,623</u>	<u>2,096,443</u>	<u>20,378,590</u>	<u>19,404,836</u>
<b>Expenses by Program</b>						
Legislative	184,733	183,449	-	-	184,733	183,449
Judicial	1,855,642	1,931,273	-	-	1,855,642	1,931,273
General Government	1,756,570	2,159,000	-	-	1,756,570	2,159,000
Public Safety	3,268,076	3,133,045	-	-	3,268,076	3,133,045
Public Works	2,047,810	1,216,171	-	-	2,047,810	1,216,171
Health and Welfare	2,593,878	2,814,322	-	-	2,593,878	2,814,322
Community & Economic Development	1,432,220	1,422,813	-	-	1,432,220	1,422,813
Recreation and Culture	1,297,118	807,801	-	-	1,297,118	807,801
Other	2,306,338	2,365,505	-	-	2,306,338	2,365,505
Interest Unallocated	75,879	175,582	-	-	75,879	175,582
Delinquent Tax Collection	-	-	189,545	164,499	189,545	164,499
Public Transit	-	-	1,796,156	1,728,022	1,796,156	1,728,022
Nonmajor Enterprise Funds	-	-	151,350	202,106	151,350	202,106
<b>Total Expenses</b>	<u>16,818,264</u>	<u>16,208,961</u>	<u>2,137,051</u>	<u>2,094,627</u>	<u>18,955,315</u>	<u>18,303,588</u>
Changes in Net Assets	1,128,703	1,099,432	294,572	1,816	1,423,275	1,101,248
Net Assets Beginning	<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>
Net Assets Ending	<u>\$ 28,106,667</u>	<u>\$ 26,977,964</u>	<u>\$ 9,651,144</u>	<u>\$ 9,356,572</u>	<u>\$ 37,757,811</u>	<u>\$ 36,334,536</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 four components: 1) government-wide financial statements; 2) fund financial statements; 3) notes to the financial statements; and 4) required supplementary information. 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 Otsego County is improving or deteriorating.

The *Statement of Activities* presents information showing the amount 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, homestead audit, and the operation of an inmate commissary.

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

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

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

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

The County of Otsego maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for each major fund of the County. The major funds of the County include the general, housing commission, revenue sharing reserve, 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, 2011 totaled \$37,757,811, an increase of \$1,423,275 from the prior year.

The largest portion of the County's net assets, \$17,703,516 (47 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, \$5,162,293 (14 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$14,892,002 (39 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 \$1,423,275 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 \$1,128,703, which is approximately \$30,000 more than the prior year. This is primarily due to an increase in revenues of approximately \$640,000, offset by an increase in expenditures of \$610,000.

**Business-Type Activities** – Business-type activities increased the County's net assets by \$294,572 which is approximately \$290,000 more than the prior year. The addition to net assets was more in the current year, due to increased revenue of approximately \$180,000 and a decrease of transfers, \$155,000 out of the Delinquent Tax Revolving Fund to fund governmental activities. Expenditures also increased approximately \$45,000.

**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, *unassigned* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On December 31, 2011, the County's governmental funds reported combined ending fund balance of \$9,992,281, a decrease of \$678,374 when compared with the prior year. This is primarily attributable to increases in capital project expenditures. Of the fund balance amount, \$1,312,440 constitutes *unassigned fund balance*, which is available for meeting the County's current obligations.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,312,440, with a total fund balance of \$2,693,150. The fund balance of the County's General Fund increased by \$345,816 during the current fiscal year. This is primarily attributable to decreases in general government expenditures.

The County's Housing Commission had an ending fund balance of \$120,793, a decrease of \$130,744 from the prior year.

The County's Revenue Sharing Reserve Fund had an ending fund balance of \$1,560,229. 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 \$440,000 represents the allowable expenditure amount for 2011, offset by interest income.

The County's Library Fund had an ending fund balance of \$516,351 which increased \$57,725 from the prior year. The increase was the result of effectively managing expenditure levels.

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

Unrestricted net assets of the enterprise funds at year end amounted to \$8,494,274. The enterprise funds had an increase in net assets for the year of \$294,572, due primarily to effectively managing expenditure levels.

Unrestricted net assets of the internal service funds at year end amounted to \$892,701. The internal service funds had an increase in net assets for the year of \$43,619.

**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.

Differences between the original and final amended budgets for expenditures (expenditures and other financing uses) resulted in a 1 percent decrease.

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 \$191,019 or 3 percent. Expenditures (expenditures and other financing uses) were below the budgetary estimates. Overall expenditures were under budget by \$444,404 or 6 percent. The greatest variance for both revenues and expenditures was due to the increase in property tax values and efficient spending in County departments.

**Housing Commission Fund** – The Housing Commission Fund had a favorable variance between the final amended budget and the actual expenditures by \$28,205 or 5 percent.

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

**Library Fund** – The Library had a favorable variance between final amended budget and actual of \$55,750.

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, 2011, amounted to \$19,138,751 (net of accumulated depreciation) for its governmental activities. This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment, vehicular equipment, and infrastructure. 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:

- \$860,650 for animal control building
- \$57,491 for law enforcement vehicles
- \$618,150 for airport
- \$22,925 for building and grounds vehicles
- \$89,528 for building and grounds buildings
- \$1,365,488 in depreciation expense on County assets
- \$6,835 for parks and recreation
- \$36,076 for data handling equipment
- \$1,067,500 for Groen Nature Preserve
- \$15,150 for Commission on Aging
- \$41,937 for Library furniture fixtures and collections

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 \$2,100,000. The County's total debt decreased by \$306,278 (10 percent) during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (State Equalized Value). The current debt limitation for the County is \$117,078,577, 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 2012 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 2012 budget are as follows:

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

**Contacting the County's Management**

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

## **Basic Financial Statements**

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Statement of Net Assets  
December 31, 2011

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
<b>ASSETS:</b>				
Current Assets:				
Cash & Equivalents	\$ 6,173,792	\$ 2,435,702	\$ 8,609,494	\$ 1,568,655
Investments	4,623,001	2,449,074	7,072,075	725,000
Receivables:				
Taxes	1,156,377	3,145,977	4,302,354	1,114,423
Accounts	304,805	11,249	316,054	1,239,739
Interest	-	287,481	287,481	-
Loans	2,073,483	-	2,073,483	-
Due from Governmental Units	365,187	268,510	633,697	-
Inventories	21,079	-	21,079	560,702
Prepaid Expenses	68,426	-	68,426	-
Total Current Assets	<u>14,786,150</u>	<u>8,597,993</u>	<u>23,384,143</u>	<u>5,208,519</u>
Noncurrent Assets:				
Advance to Component Unit	122,709	-	122,709	-
Capital Assets Not Depreciated	2,678,996	99,998	2,778,994	170,157
Capital Assets (Net of Accumulated Depreciation)	16,459,755	1,056,872	17,516,627	21,128,944
Total Noncurrent Assets	<u>19,261,460</u>	<u>1,156,870</u>	<u>20,418,330</u>	<u>21,299,101</u>
<b>TOTAL ASSETS</b>	<u>\$ 34,047,610</u>	<u>\$ 9,754,863</u>	<u>\$ 43,802,473</u>	<u>\$ 26,507,620</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	\$ 600,259	\$ 45,437	\$ 645,696	\$ 156,022
Accrued Liabilities	141,078	28,862	169,940	113,518
Other Liabilities	-	29,420	29,420	-
Advance from Government Units	-	-	-	226,134
Due to Governmental Units	2,265	-	2,265	10,000
Deferred Revenue	1,206,792	-	1,206,792	1,114,423
Interest Payable	19,683	-	19,683	-
Bonds Payable	315,000	-	315,000	30,000
Capital Lease Payable	11,179	-	11,179	27,133
Total Current Liabilities	<u>2,296,256</u>	<u>103,719</u>	<u>2,399,975</u>	<u>1,677,230</u>
Noncurrent Liabilities:				
Vested Employee Benefits	105,113	-	105,113	71,804
Advance from Primary Government	-	-	-	122,709
Bonds Payable	1,785,000	-	1,785,000	855,000
Post Employment Benefit Liabilities	1,273,648	-	1,273,648	4,832,866
Note Payable	480,926	-	480,926	-
Capital Lease Payable	-	-	-	34,913
Total Noncurrent Liabilities	<u>3,644,687</u>	<u>-</u>	<u>3,644,687</u>	<u>5,917,292</u>
<b>TOTAL LIABILITIES</b>	<u>5,940,943</u>	<u>103,719</u>	<u>6,044,662</u>	<u>7,594,522</u>
<b>NET ASSETS:</b>				
Invested in Capital Assets (Net of Related Debt)	16,546,646	1,156,870	17,703,516	20,352,055
Restricted for Debt Service	102,109	-	102,109	-
Restricted for Ambulance and Emergency Services	-	-	-	873,913
Restricted for Sportsplex	-	-	-	144,499
Restricted for University Center	-	-	-	928,818
Restricted for Housing Projects	2,194,276	-	2,194,276	-
Restricted for Revenue Sharing	1,560,229	-	1,560,229	-
Restricted for Schneider Trust	44,000	-	44,000	-
Restricted for COA	740,665	-	740,665	-
Restricted for Grants	4,663	-	4,663	-
Restricted Library	516,351	-	516,351	-
Unrestricted	6,397,728	8,494,274	14,892,002	(3,386,187)
<b>TOTAL NET ASSETS</b>	<u>\$ 28,106,667</u>	<u>\$ 9,651,144</u>	<u>\$ 37,757,811</u>	<u>\$ 18,913,098</u>

# County of Otsego, Michigan

## Statement of Activities For the Year Ended December 31, 2011

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	Primary Government			
					Governmental Activities	Business-Type Activities	Totals	
<b>Primary Government:</b>								
<b>Governmental Activities:</b>								
Legislative	\$ 184,733	\$ -	\$ -	\$ -	\$ (184,733)	\$ -	\$ (184,733)	\$ -
Judicial	1,855,642	633,840	769,748	-	(452,054)	-	(452,054)	-
General Government	1,756,570	424,807	402,667	36,076	(893,020)	-	(893,020)	-
Public Safety	3,268,076	1,258,324	1,185,421	-	(824,331)	-	(824,331)	-
Public Works	2,047,810	933,610	9,750	613,100	(491,350)	-	(491,350)	-
Health & Welfare	2,593,878	229,126	506,214	-	(1,858,538)	-	(1,858,538)	-
Community/Economic Development	1,432,220	348,062	425,762	-	(658,396)	-	(658,396)	-
Recreation and Culture	1,297,118	417,988	1,102,322	-	223,192	-	223,192	-
Other	2,306,338	-	-	-	(2,306,338)	-	(2,306,338)	-
Interest - Unallocated	75,879	-	-	-	(75,879)	-	(75,879)	-
Total Governmental Activities	<u>16,818,264</u>	<u>4,245,757</u>	<u>4,401,884</u>	<u>649,176</u>	<u>(7,521,447)</u>	<u>-</u>	<u>(7,521,447)</u>	<u>-</u>
<b>Business-type Activities:</b>								
Delinquent Tax Collection	189,545	415,184	-	-	-	225,639	225,639	-
Public Transit	1,796,156	380,271	907,449	109,945	-	(398,491)	(398,491)	-
Non-Major Enterprise Funds	151,350	236,312	-	-	-	84,962	84,962	-
Total Business-type Activities	<u>2,137,051</u>	<u>1,031,767</u>	<u>907,449</u>	<u>109,945</u>	<u>-</u>	<u>(87,890)</u>	<u>(87,890)</u>	<u>-</u>
Total Primary Government	<u>\$ 18,955,315</u>	<u>\$ 5,277,524</u>	<u>\$ 5,309,333</u>	<u>\$ 759,121</u>	<u>(7,521,447)</u>	<u>(87,890)</u>	<u>(7,609,337)</u>	<u>-</u>
<b>Component Units:</b>								
Road Commission	\$ 7,827,937	\$ 884,692	\$ 5,626,294	\$ -	-	-	-	(1,316,951)
Ambulance	1,937,371	1,700,123	-	-	-	-	-	(237,248)
University Center	955,423	279,029	-	-	-	-	-	(676,394)
Sportsplex	794,912	491,338	-	-	-	-	-	(303,574)
Total Component Units	<u>11,515,643</u>	<u>3,355,182</u>	<u>5,626,294</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,534,167)</u>
Total	<u>\$ 30,470,958</u>	<u>\$ 8,632,706</u>	<u>\$ 10,935,627</u>	<u>\$ 759,121</u>	<u>-</u>	<u>(87,890)</u>	<u>(7,609,337)</u>	<u>-</u>
<b>General Revenues and Transfers:</b>								
Taxes	-	-	-	-	7,565,163	293,016	7,858,179	1,420,400
Investment Earnings (Loss)	-	-	-	-	309,859	14,987	324,846	18,566
Transfers	-	-	-	-	108,000	(108,000)	-	-
Other	-	-	-	-	667,128	182,459	849,587	24,918
Total General Revenues and Transfers	-	-	-	-	<u>8,650,150</u>	<u>382,462</u>	<u>9,032,612</u>	<u>1,463,884</u>
Changes in Net Assets	-	-	-	-	<u>1,128,703</u>	<u>294,572</u>	<u>1,423,275</u>	<u>(1,070,283)</u>
Net Assets - Beginning	-	-	-	-	<u>26,977,964</u>	<u>9,356,572</u>	<u>36,334,536</u>	<u>19,983,381</u>
Net Assets - Ending	-	-	-	-	<u>\$ 28,106,667</u>	<u>\$ 9,651,144</u>	<u>\$ 37,757,811</u>	<u>\$ 18,913,098</u>

See accompanying notes to financial statements.

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2011**

	General	Housing Commission	Revenue Sharing Reserve	Library	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>						
Cash & Equivalents - Unrestricted	\$ 292,726	\$ 137,199	\$ 1,560,229	\$ 134,360	\$ 3,634,471	\$ 5,758,985
Investments	2,376,171	-	-	428,131	1,362,360	4,166,662
Receivables:						
Taxes	119,563	-	-	465,847	570,967	1,156,377
Accounts	76,096	-	-	842	222,304	299,242
Loans	-	2,073,483	-	-	-	2,073,483
Due from Other Funds	504	-	-	-	42,490	42,994
Due from Governmental Units	183,812	-	-	-	180,640	364,452
Inventories	10,588	-	-	-	10,166	20,754
Prepaid Expense	16,385	-	-	-	571	16,956
Long-Term Advances to Other Funds - Component Units	-	-	-	-	122,709	122,709
<b>TOTAL ASSETS</b>	<b>\$ 3,075,845</b>	<b>\$ 2,210,682</b>	<b>\$ 1,560,229</b>	<b>\$ 1,029,180</b>	<b>\$ 6,146,678</b>	<b>\$ 14,022,614</b>
<b>LIABILITIES:</b>						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 42,994	\$ 42,994
Accounts Payable	137,032	15,849	-	46,627	366,859	566,367
Due to Other Governmental Units	-	-	-	-	2,265	2,265
Accrued Liabilities	75,834	557	-	355	61,686	138,432
Deferred Revenue	169,829	2,073,483	-	465,847	571,116	3,280,275
<b>TOTAL LIABILITIES</b>	<b>382,695</b>	<b>2,089,889</b>	<b>-</b>	<b>512,829</b>	<b>1,044,920</b>	<b>4,030,333</b>
<b>FUND BALANCES:</b>						
Nonspendable	26,973	-	-	-	133,446	160,419
Restricted for Schneider Trust	-	-	-	-	44,000	44,000
Restricted for COA	-	-	-	-	740,665	740,665
Restricted for Debt Service	-	-	-	-	102,109	102,109
Restricted for Housing Projects	-	120,793	-	-	-	120,793
Restricted for Revenue Sharing	-	-	1,560,229	-	-	1,560,229
Restricted for Library	-	-	-	516,351	-	516,351
Restricted for Grants	4,663	-	-	-	-	4,663
Committed	4,115	-	-	-	2,037,617	2,041,732
Assigned	1,344,959	-	-	-	2,043,921	3,388,880
Unassigned	1,312,440	-	-	-	-	1,312,440
<b>TOTAL FUND BALANCES</b>	<b>2,693,150</b>	<b>120,793</b>	<b>1,560,229</b>	<b>516,351</b>	<b>5,101,758</b>	<b>9,992,281</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,075,845</b>	<b>\$ 2,210,682</b>	<b>\$ 1,560,229</b>	<b>\$ 1,029,180</b>	<b>\$ 6,146,678</b>	<b>\$ 14,022,614</b>

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

Capital assets used by governmental activities	19,138,751
Long term notes & leases payable for governmental activities	(2,592,105)
Compensated absences and OPEB liabilities	(1,378,761)
Deferred revenue recognized as current revenue	2,073,483
Internal Service Funds	892,701
Accrued interest expense	(19,683)
<b>Net assets of governmental activities</b>	<b>\$ 28,106,667</b>

**Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended December 31, 2011**

	General	Housing Commission	Revenue Sharing Reserve	Library	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes	\$ 4,506,299	\$ -	\$ -	\$ 469,098	\$ 2,589,766	\$ 7,565,163
Licenses & Permits	46,860	-	-	-	-	46,860
Federal Sources	364,365	338,598	-	-	2,081,931	2,784,894
State Sources	741,365	-	-	28,057	247,407	1,016,829
Local Sources	10,045	55,525	-	4,250	1,179,517	1,249,337
Charges for Services	880,564	-	-	4,035	2,317,839	3,202,438
Fines & Forfeits	15,217	-	-	181,729	13	196,959
Interest & Rentals	105,398	204	20,068	8,728	188,532	322,930
Other Revenue	273,537	54,201	-	17,267	552,931	897,936
<b>TOTAL REVENUES</b>	<b>6,943,650</b>	<b>448,528</b>	<b>20,068</b>	<b>713,164</b>	<b>9,157,936</b>	<b>17,283,346</b>
<b>EXPENDITURES:</b>						
Legislative	184,733	-	-	-	-	184,733
Judicial	1,794,252	-	-	-	69,644	1,863,896
General Government	1,414,651	-	-	-	26,397	1,441,048
Public Safety	1,689,572	-	-	-	1,499,930	3,189,502
Public Works	-	-	-	-	1,348,772	1,348,772
Health & Welfare	478,878	-	-	-	2,085,466	2,564,344
Community/Economic Development	81,240	579,272	-	-	770,738	1,431,250
Recreation and Culture	-	-	-	655,439	427,955	1,083,394
Other Expenditures	900,327	-	-	-	300,000	1,200,327
Capital Outlay	58,469	-	-	-	3,613,690	3,672,159
Debt Service	-	-	-	-	390,295	390,295
<b>TOTAL EXPENDITURES</b>	<b>6,602,122</b>	<b>579,272</b>	<b>-</b>	<b>655,439</b>	<b>10,532,887</b>	<b>18,369,720</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>341,528</b>	<b>(130,744)</b>	<b>20,068</b>	<b>57,725</b>	<b>(1,374,951)</b>	<b>(1,086,374)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Loan Proceeds	-	-	-	-	300,000	300,000
Operating Transfers In	679,705	-	-	-	845,717	1,525,422
Operating Transfers Out	(675,417)	-	(458,405)	-	(283,600)	(1,417,422)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>345,816</b>	<b>(130,744)</b>	<b>(438,337)</b>	<b>57,725</b>	<b>(512,834)</b>	<b>(678,374)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>2,347,334</b>	<b>251,537</b>	<b>1,998,566</b>	<b>458,626</b>	<b>5,614,592</b>	<b>10,670,655</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 2,693,150</b>	<b>\$ 120,793</b>	<b>\$ 1,560,229</b>	<b>\$ 516,351</b>	<b>\$ 5,101,758</b>	<b>\$ 9,992,281</b>

**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, 2011**

Net Changes in fund balances - total governmental funds \$ (678,374)

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, \$2,816,242 exceeded depreciation, (\$1,365,488). 1,450,754

Revenues earned but not available for current resources are not reported in the funds.  
Housing Commission - loan increase 212,002

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.  
Principal repayments:  
Bonds Payable 305,000  
Capital Leases 12,759

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 1,278  
Post employment benefit liability (214,992)  
Accrued interest expense (3,343)

Internal service fund activity 43,619

Changes in net assets of governmental activities \$ 1,128,703

**Statement of Net Assets  
Proprietary Funds  
December 31, 2011**

	Business-Type Activities - Enterprise Funds			Governmental	
	Major		Total	Activities	
	Delinquent Tax Fund	Bus System 9/30/2011	Non-Major Enterprise Funds	Enterprise Funds	Internal Service Funds
<b>ASSETS:</b>					
<b>Current Assets</b>					
Cash & Equivalents	\$ 1,955,518	\$ 157,903	\$ 322,281	\$ 2,435,702	\$ 414,807
Investments	2,062,819	-	386,255	2,449,074	456,339
Taxes Receivable	3,145,977	-	-	3,145,977	-
Interest Receivable	287,481	-	-	287,481	-
Accounts Receivable	-	5,228	6,021	11,249	5,563
Due from Governmental Units	-	268,510	-	268,510	735
Prepaid Expense	-	-	-	-	51,470
Inventory	-	-	-	-	325
<b>Total Current Assets</b>	<b>7,451,795</b>	<b>431,641</b>	<b>714,557</b>	<b>8,597,993</b>	<b>929,239</b>
<b>Noncurrent Assets</b>					
Capital Assets, Not Depreciated	-	99,998	-	99,998	-
Capital Assets, (Net of Accumulated Depreciation)	-	909,286	147,586	1,056,872	-
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>1,009,284</b>	<b>147,586</b>	<b>1,156,870</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,451,795</b>	<b>\$ 1,440,925</b>	<b>\$ 862,143</b>	<b>\$ 9,754,863</b>	<b>\$ 929,239</b>
<b>LIABILITIES:</b>					
<b>Current Liabilities</b>					
Accounts Payable	\$ 11,440	\$ 27,049	\$ 6,948	\$ 45,437	\$ 33,892
Accrued Liabilities	2,726	16,018	10,118	28,862	2,646
Other Liabilities	-	29,420	-	29,420	-
<b>Total Current Liabilities</b>	<b>14,166</b>	<b>72,487</b>	<b>17,066</b>	<b>103,719</b>	<b>36,538</b>
<b>TOTAL LIABILITIES</b>	<b>14,166</b>	<b>72,487</b>	<b>17,066</b>	<b>103,719</b>	<b>36,538</b>
<b>NET ASSETS:</b>					
Invested in Capital Assets	-	1,009,284	147,586	1,156,870	-
Unrestricted	7,437,629	359,154	697,491	8,494,274	892,701
<b>TOTAL NET ASSETS</b>	<b>\$ 7,437,629</b>	<b>\$ 1,368,438</b>	<b>\$ 845,077</b>	<b>\$ 9,651,144</b>	<b>\$ 892,701</b>

**Statement of Revenues, Expenses, and  
Changes in Net Assets - Proprietary Funds  
For the Year Ended December 31, 2011**

	Business-Type Activities - Enterprise Funds				Governmental
	Major			Total Enterprise Funds	Internal Service Funds
	Delinquent Tax Fund	Bus System 9/30/2011	Non-Major Enterprise Funds		
<b>OPERATING REVENUES:</b>					
Local Sources	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ -
Charges for Services	129,271	380,271	236,312	745,854	1,914,198
Interest on Delinquent Taxes	285,913	-	-	285,913	-
Other Revenues	830	-	18,257	19,087	3,158
<b>TOTAL REVENUES</b>	<b>416,014</b>	<b>380,271</b>	<b>259,569</b>	<b>1,055,854</b>	<b>1,917,356</b>
<b>OPERATING EXPENSES:</b>					
Salaries, Wages, and Fringe Benefits	70,039	1,208,427	7,873	1,286,339	383,082
Contractual Services	93,040	-	37,823	130,863	235,902
Materials and Supplies	2,887	-	23,861	26,748	3,318
Equipment Repair and Maintenance	-	-	-	-	33,824
Utilities	-	-	-	-	200,200
Depreciation	-	161,349	12,300	173,649	-
Other Expenses	23,579	426,380	69,493	519,452	1,017,763
<b>TOTAL EXPENSES</b>	<b>189,545</b>	<b>1,796,156</b>	<b>151,350</b>	<b>2,137,051</b>	<b>1,874,089</b>
<b>OPERATING INCOME (LOSS)</b>	<b>226,469</b>	<b>(1,415,885)</b>	<b>108,219</b>	<b>(1,081,197)</b>	<b>43,267</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
State Operating Grants	-	606,325	-	606,325	-
Federal Operating Grants	-	301,124	-	301,124	-
Interest Earned on Investments	-	165	14,822	14,987	352
Property Taxes Levied	-	293,016	-	293,016	-
Other	-	158,372	-	158,372	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>-</b>	<b>1,359,002</b>	<b>14,822</b>	<b>1,373,824</b>	<b>352</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND INTERFUND TRANSFERS</b>	<b>226,469</b>	<b>(56,883)</b>	<b>123,041</b>	<b>292,627</b>	<b>43,619</b>
<b>CAPITAL CONTRIBUTIONS:</b>					
Capital Contributions From State Sources	-	21,989	-	21,989	-
Capital Contributions From Federal Sources	-	87,956	-	87,956	-
<b>INTERFUND TRANSFERS:</b>					
Operating Transfers In	-	-	17,000	17,000	-
Operating Transfers Out	(125,000)	-	-	(125,000)	-
<b>CHANGES IN NET ASSETS</b>	<b>101,469</b>	<b>53,062</b>	<b>140,041</b>	<b>294,572</b>	<b>43,619</b>
<b>NET ASSETS, JANUARY 1</b>	<b>7,336,160</b>	<b>1,315,376</b>	<b>705,036</b>	<b>9,356,572</b>	<b>849,082</b>
<b>NET ASSETS, DECEMBER 31</b>	<b>\$ 7,437,629</b>	<b>\$ 1,368,438</b>	<b>\$ 845,077</b>	<b>\$ 9,651,144</b>	<b>\$ 892,701</b>

# County of Otsego, Michigan

## Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major				Internal Service Funds
	Delinquent Tax Fund	Bus System 9/30/2011	Non-Major Enterprise Funds	Total Enterprise Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from Customers	\$ 415,300	\$ 380,271	\$ 263,666	\$ 1,059,237	\$ 1,864,120
Interest on Delinquent Taxes	327,611	-	-	327,611	-
Net Delinquent Taxes Collected (Purchased)	(257,486)	-	-	(257,486)	-
Payments to Suppliers	(124,825)	(505,644)	(136,367)	(766,836)	(1,515,908)
Payments to Employees for Services and Benefits	(69,679)	(1,208,936)	-	(1,278,615)	(382,951)
Net Cash Provided (Used) by Operating Activities	<u>290,921</u>	<u>(1,334,309)</u>	<u>127,299</u>	<u>(916,089)</u>	<u>(34,739)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
State Grants	-	606,325	-	606,325	-
Federal Grants	-	301,124	-	301,124	-
Property Tax	-	293,016	-	293,016	-
Other	-	158,372	-	158,372	-
Operating Transfers In	-	-	17,000	17,000	-
Operating Transfers Out	(125,000)	-	-	(125,000)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>(125,000)</u>	<u>1,358,837</u>	<u>17,000</u>	<u>1,250,837</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Federal and State Capital Assistance	-	109,945	-	109,945	-
Capital Assets Purchased	-	(109,916)	-	(109,916)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>29</u>	<u>-</u>	<u>29</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Net Sale or (Purchase) of Investments	452,225	-	(281,255)	170,970	53,805
Interest Earnings	-	165	14,822	14,987	352
Net Cash Provided (Used) by Investing Activities	<u>452,225</u>	<u>165</u>	<u>(266,433)</u>	<u>185,957</u>	<u>54,157</u>
Net Increase (Decrease) in Cash and Equivalents	618,146	24,722	(122,134)	520,734	19,418
Balances - Beginning of the Year	1,337,372	133,181	444,415	1,914,968	395,389
Balances - End of the Year	<u>\$ 1,955,518</u>	<u>\$ 157,903</u>	<u>\$ 322,281</u>	<u>\$ 2,435,702</u>	<u>\$ 414,807</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>					
Operating Income (Loss)	\$ 226,469	\$ (1,415,885)	\$ 108,219	\$ (1,081,197)	\$ 43,267
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	161,349	12,300	173,649	-
Change in Assets and Liabilities:					
Taxes Receivable	(257,486)	-	-	(257,486)	-
Interest Receivable	41,698	-	-	41,698	-
Accounts Receivable	-	(90,378)	(6,021)	(96,399)	(1,688)
Due from Other Governmental Units	285,199	-	(2,000)	283,199	(78)
Prepaid Expense	-	-	-	-	(51,470)
Accounts Payable	(1,111)	11,114	5,461	15,464	(24,901)
Accrued Liabilities	360	(509)	9,340	9,191	131
Other Liabilities	(4,208)	-	-	(4,208)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 290,921</u>	<u>\$ (1,334,309)</u>	<u>\$ 127,299</u>	<u>\$ (916,089)</u>	<u>\$ (34,739)</u>

See accompanying notes to financial statements.

Statement of Fiduciary Net Assets  
Fiduciary Funds  
December 31, 2011

	Agency Funds
ASSETS:	
Cash and Equivalents	<u>\$ 945,563</u>
 TOTAL ASSETS	 <u><u>\$ 945,563</u></u>
LIABILITIES:	
Undistributed Tax Collections	\$ 914,392
Bonds, Restitutions and Payables to Others	<u>31,171</u>
 TOTAL LIABILITIES	 <u><u>\$ 945,563</u></u>

# **Component Units**

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# County of Otsego, Michigan

## Statement of Net Assets Component Units December 31, 2011

	Road Commission	Ambulance Corporation	University Center	Sportsplex	Totals
<b>ASSETS:</b>					
Current Assets:					
Cash and Equivalents	\$ 659,614	\$ 221,018	\$ 553,683	\$ 134,340	\$ 1,568,655
Investments	-	250,000	475,000	-	725,000
Receivables:					
Taxes	-	465,847	648,576	-	1,114,423
Accounts	645,000	559,000	21,931	13,808	1,239,739
Inventories	535,884	-	-	24,818	560,702
Total Current Assets	1,840,498	1,495,865	1,699,190	172,966	5,208,519
Noncurrent Assets:					
Capital Assets (Not Depreciated)	170,157	-	-	-	170,157
Capital Assets (Net of Accumulated Depreciation)	20,328,125	588,534	212,285	-	21,128,944
Total Noncurrent Assets	20,498,282	588,534	212,285	-	21,299,101
<b>TOTAL ASSETS</b>	<b>\$ 22,338,780</b>	<b>\$ 2,084,399</b>	<b>\$ 1,911,475</b>	<b>\$ 172,966</b>	<b>\$ 26,507,620</b>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts Payable	\$ 66,377	\$ 9,574	\$ 77,529	\$ 2,542	\$ 156,022
Accrued Liabilities	40,557	2,769	44,267	25,925	113,518
Due to Governmental Units	10,000	-	-	-	10,000
Advance from Government Units	205,081	21,053	-	-	226,134
Deferred Revenue	-	465,847	648,576	-	1,114,423
Capital Lease Payable	-	27,133	-	-	27,133
Bonds Payable	30,000	-	-	-	30,000
Total Current Liabilities	352,015	526,376	770,372	28,467	1,677,230
Noncurrent Liabilities:					
Advance from Primary Government	-	122,709	-	-	122,709
Bonds Payable	855,000	-	-	-	855,000
Post Employment Benefit Liabilities	4,832,866	-	-	-	4,832,866
Vested Employee Benefits	71,804	-	-	-	71,804
Capital Lease Payable	-	34,913	-	-	34,913
Total Noncurrent Liabilities	5,759,670	157,622	-	-	5,917,292
<b>TOTAL LIABILITIES</b>	<b>6,111,685</b>	<b>683,998</b>	<b>770,372</b>	<b>28,467</b>	<b>7,594,522</b>
<b>NET ASSETS:</b>					
Invested in Capital Assets, Net of Related Debt	19,613,282	526,488	212,285	-	20,352,055
Restricted for Ambulance and Emergency Services	-	873,913	-	-	873,913
Restricted for Sportsplex	-	-	-	144,499	144,499
Restricted for University Center	-	-	928,818	-	928,818
Unrestricted	(3,386,187)	-	-	-	(3,386,187)
<b>TOTAL NET ASSETS</b>	<b>\$ 16,227,095</b>	<b>\$ 1,400,401</b>	<b>\$ 1,141,103</b>	<b>\$ 144,499</b>	<b>\$ 18,913,098</b>

# County of Otsego, Michigan

## Statement of Activities Component Units For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Road Commission	Ambulance Corporation	University Center	Sportsplex	Total
<b>Road Commission:</b>								
Public Works	\$ 7,827,937	\$ 884,692	\$ 5,626,294	\$ (1,316,951)	\$ -	\$ -	\$ -	\$ (1,316,951)
<b>Ambulance Corporation:</b>								
Health & Welfare	1,937,371	1,700,123	-	-	(237,248)	-	-	(237,248)
<b>University Center:</b>								
Recreation and Culture	955,423	279,029	-	-	-	(676,394)	-	(676,394)
<b>Sportsplex:</b>								
Recreation and Culture	794,912	491,338	-	-	-	-	(303,574)	(303,574)
Total Component Units	<u>\$ 11,515,643</u>	<u>\$ 3,355,182</u>	<u>\$ 5,626,294</u>	<u>(1,316,951)</u>	<u>(237,248)</u>	<u>(676,394)</u>	<u>(303,574)</u>	<u>(2,534,167)</u>
<b>General Revenues and Transfers:</b>								
Property Tax				-	469,740	665,505	285,155	1,420,400
Investment Earnings				2,277	5,028	10,585	676	18,566
Other				3,385	16,758	4,775	-	24,918
<b>Total General Revenues and Transfers</b>				<u>5,662</u>	<u>491,526</u>	<u>680,865</u>	<u>285,831</u>	<u>1,463,884</u>
Changes in Net Assets				(1,311,289)	254,278	4,471	(17,743)	(1,070,283)
Net Assets - Beginning				17,538,384	1,146,123	1,136,632	162,242	19,983,381
<b>Net Assets - Ending</b>				<u>\$ 16,227,095</u>	<u>\$ 1,400,401</u>	<u>\$ 1,141,103</u>	<u>\$ 144,499</u>	<u>\$ 18,913,098</u>

## **Notes to Financial Statements**

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**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 1<sup>st</sup> annually a proposed budget for the operation of the facility for the subsequent fiscal year beginning January 1<sup>st</sup>. Prior to September 1<sup>st</sup> 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 2011 were:

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

Otsego County’s appropriation and cigarette tax to the Health Agency for the year was \$166,100.

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 \$772,459 for which Otsego appropriated \$768,115 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 2011 local match for Otsego County was \$94,003.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiscal Year End Other Than December 31, 2011

The financial information presented in this report is for the year ended December 31, 2011, 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, 2011
Bus System	Enterprise Fund	September 30, 2011

**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 2010 ad valorem tax is levied and collectible on December 1, 2010 and the 2011 ad valorem tax is levied and collectible on July 1, 2011, 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 2010 taxable valuation of Otsego County amounted to \$1,201,805,060 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, .4000 mills for Library, .4000 for Ambulance, .6464 for M-TEC, .5569 for the University Center, and .2500 for Sportsplex Operating. These amounts are recognized in the respective special revenue fund, debt service fund, component unit financial statements as revenue.

The July 1, 2011 taxable valuation of the County of Otsego totaled \$1,170,785,765 on which ad valorem taxes levied consisted of 4.0502 mills for the General Fund. This amount is recognized as revenue in the General Fund.

The taxes receivable are recorded in the financial statements as taxes receivable, with an offsetting credit to deferred revenue based on the 2011 taxable valuation. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2011 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.

**Housing Commission**

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

**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.

**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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 \$10,588 at December 31, 2011.

Commission on Aging – \$604 of inventory was on hand at September 30, 2011.

Airport – The inventory at the airport consists of fuel on hand based on average cost with a value of \$9,562 at December 31, 2011.

Inventories – Component Units

Road Commission – Inventories amounting to \$535,884 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 \$24,818.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounts Receivable – Component Unit

Ambulance – The accounts receivable balance is net of allowance for doubtful accounts of \$1,031,000.

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

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

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Fund Balance Classification

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The County has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The County has \$160,419 in Nonspendable fund balance.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The County has \$2,348,145 in Restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County. These amounts cannot be used for any other purpose unless the County removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The County has \$2,164,441 in committed fund balance.
- Assigned: This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the County through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The County has assigned funds in the amount of \$4,130,149.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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.

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:

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

- 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.

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	\$ 6,173,792	\$ 2,435,702	\$ 8,609,494	\$ 945,563	\$ 1,568,655
Total	<u>\$ 6,173,792</u>	<u>\$ 2,435,702</u>	<u>\$ 8,609,494</u>	<u>\$ 945,563</u>	<u>\$ 1,568,655</u>

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 8,599,964	\$ 945,563	\$ 1,566,095
Petty Cash and Cash on Hand	<u>9,530</u>	<u>-</u>	<u>2,560</u>
Total	<u>\$ 8,609,494</u>	<u>\$ 945,563</u>	<u>\$ 1,568,655</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	\$ 1,197,976	\$ 1,197,976	\$ -	\$ -	\$ -	N/A
U.S. Treasury Securities	4,883,276	1,005,615	503,996	500,000	2,873,665	AAA
Asset Backed Securities	<u>1,715,823</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,715,823</u>	AAA
Total Investments	<u>\$ 7,797,075</u>	<u>\$ 2,203,591</u>	<u>\$ 503,996</u>	<u>\$ 500,000</u>	<u>\$ 4,589,488</u>	

Governmental Activities	\$ 4,623,001
Business Activities	2,449,074
Component Units	<u>725,000</u>
Total	<u>\$ 7,797,075</u>

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

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

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

*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 \$7,797,075 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, \$4,767,676 of the County's bank balance of \$9,842,627 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.
- 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, 2011, the total outstanding loans were \$2,073,483.

**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>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 704,478	\$ 1,067,500	\$ -	\$ 1,771,978
Construction in Progress	46,368	860,650	-	907,018
Subtotal	<u>750,846</u>	<u>1,928,150</u>	-	<u>2,678,996</u>
<i>Capital assets being depreciated:</i>				
Buildings	14,866,687	94,578	-	14,961,265
Furniture and Fixtures	481,125	13,910	-	495,035
Equipment:				
Data Handling	1,278,711	36,076	(137,866)	1,176,921
Other Equipment	2,142,158	34,862	-	2,177,020
Commission on Aging	118,863	15,150	-	134,013
Vehicles	1,779,484	80,416	-	1,859,900
Infrastructure	<u>11,468,015</u>	<u>613,100</u>	-	<u>12,081,115</u>
Subtotal	<u>32,135,043</u>	<u>888,092</u>	<u>(137,866)</u>	<u>32,885,269</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(7,435,678)	(573,937)	-	(8,009,615)
Furniture and Fixtures	(211,550)	(34,839)	-	(246,389)
Equipment:				
Data Handling	(1,139,128)	(36,944)	137,866	(1,038,206)
Other Equipment	(1,001,468)	(13,531)	-	(1,014,999)
Commission on Aging	(103,860)	(7,748)	-	(111,608)
Vehicles	(1,585,982)	(94,253)	-	(1,680,235)
Infrastructure	<u>(3,720,226)</u>	<u>(604,196)</u>	-	<u>(4,324,422)</u>
Subtotal	<u>(15,197,892)</u>	<u>(1,365,488)</u>	<u>137,866</u>	<u>(16,425,514)</u>
Net Capital Assets Being Depreciated	<u>16,937,151</u>	<u>(477,396)</u>	-	<u>16,459,755</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 17,687,997</u>	<u>\$ 1,450,754</u>	<u>\$ -</u>	<u>\$ 19,138,751</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

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

Governmental Activities:	
General Government	\$ 313,829
Public Safety	71,229
Public Works	699,602
Health and Welfare	29,534
Recreation and Culture	<u>251,294</u>
 Total Depreciation – Governmental Activities	 <u>\$ 1,365,488</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
<b>Business-type Activities:</b>					
<i>Capital assets not being depreciated:</i>					
Land	\$ 99,998	\$ -	\$ -	\$ -	\$ 99,998
 <i>Capital assets being depreciated:</i>					
Buildings	760,033	-	-	-	760,033
Vehicles	1,522,585	109,945	(644,680)	-	987,850
Equipment	<u>563,815</u>	<u>-</u>	<u>(101,569)</u>	<u>-</u>	<u>462,246</u>
Subtotal	<u>2,846,433</u>	<u>109,945</u>	<u>(746,249)</u>	<u>-</u>	<u>2,210,129</u>
 <i>Less accumulated depreciation for:</i>					
Buildings	(270,235)	(38,001)	-	-	(308,236)
Vehicles	(1,076,406)	(113,835)	644,680	(29)	(545,590)
Equipment	<u>(379,187)</u>	<u>(21,813)</u>	<u>101,569</u>	<u>-</u>	<u>(299,431)</u>
Subtotal	<u>(1,725,828)</u>	<u>(173,649)</u>	<u>746,249</u>	<u>(29)</u>	<u>(1,153,257)</u>
Net Capital Assets Being Depreciated	<u>1,120,605</u>	<u>(63,704)</u>	<u>-</u>	<u>(29)</u>	<u>1,056,872</u>
Business-type Capital Assets, Net of Depreciation	<u>\$ 1,220,603</u>	<u>\$ (63,704)</u>	<u>\$ -</u>	<u>\$ (29)</u>	<u>\$ 1,156,870</u>

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

Business-Type Activities:	
UC Metropolitan Area Network	\$ 12,300
Bus System	<u>161,349</u>
 Total Business-Type Activities	 <u>\$ 173,649</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land and Improvements	\$ 170,157	\$ -	\$ -	\$ 170,157
<i>Capital assets being depreciated:</i>				
Buildings	3,010,705	712,908	-	3,723,613
Road Equipment	5,285,576	150,060	(46,017)	5,389,619
Shop Equipment	102,808	8,466	(4,533)	106,741
Office Equipment	78,105	4,840	-	82,945
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	1,780,278	37	-	1,780,315
Infrastructure – Roads	<u>35,223,709</u>	<u>2,021,547</u>	<u>-</u>	<u>37,245,256</u>
Subtotal	<u>45,552,065</u>	<u>2,897,858</u>	<u>(50,550)</u>	<u>48,399,373</u>
<i>Less accumulated depreciation:</i>				
Building	(1,301,067)	(72,457)	-	(1,373,524)
Road Equipment	(4,721,042)	(227,654)	45,902	(4,902,794)
Shop Equipment	(97,128)	(2,840)	4,533	(95,435)
Office Equipment	(77,003)	(1,818)	-	(78,821)
Engineer's Equipment	(16,466)	(465)	-	(16,931)
Yard and Storage Equipment	(1,800)	-	-	(1,800)
Traffic Signals	(26,061)	(2,984)	-	(29,045)
Infrastructure – Bridges	(411,238)	(70,946)	-	(482,184)
Infrastructure – Roads	<u>(19,253,114)</u>	<u>(1,837,600)</u>	<u>-</u>	<u>(21,090,714)</u>
Subtotal	<u>(25,904,919)</u>	<u>(2,216,764)</u>	<u>50,435</u>	<u>(28,071,248)</u>
Net Capital Assets Being Depreciated	<u>19,647,146</u>	<u>681,094</u>	<u>(115)</u>	<u>20,328,125</u>
Total Net Capital Assets	<u>\$ 19,817,303</u>	<u>\$ 681,094</u>	<u>\$ (115)</u>	<u>\$ 20,498,282</u>

Depreciation expense was charged entirely to Public Works.

**NOTE 5 - CAPITAL ASSETS (Continued)**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 725,000	\$ -	\$ -	\$ 725,000
Other Equipment	524,336	-	-	524,336
Vehicles	<u>1,349,347</u>	<u>-</u>	<u>(217,000)</u>	<u>1,132,347</u>
Subtotal	<u>2,598,683</u>	<u>-</u>	<u>(217,000)</u>	<u>2,381,683</u>
<i>Less accumulated depreciation for:</i>				
Building	(406,000)	(29,000)	-	(435,000)
Other Equipment	(403,636)	(27,114)	-	(430,750)
Vehicles	<u>(1,062,625)</u>	<u>(81,774)</u>	<u>217,000</u>	<u>(927,399)</u>
Subtotal	<u>(1,872,261)</u>	<u>(137,888)</u>	<u>217,000</u>	<u>(1,793,149)</u>
Net Capital Assets Being Depreciated	<u>\$ 726,422</u>	<u>\$ (137,888)</u>	<u>\$ -</u>	<u>\$ 588,534</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	\$ 93,066	\$ 51,059	\$ -	\$ 144,125
Leasehold Improvements	24,854	-	-	24,854
Furniture and Fixtures	238,845	18,172	-	257,017
Data Handling Equipment	<u>519,369</u>	<u>35,784</u>	<u>(28,351)</u>	<u>526,802</u>
Subtotal	<u>876,134</u>	<u>105,015</u>	<u>(28,351)</u>	<u>952,798</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(11,630)	(10,574)	-	(22,204)
Leasehold Improvements	(24,853)	-	-	(24,853)
Furniture and Fixtures	(182,594)	(12,210)	-	(194,804)
Data Handling Equipment	<u>(461,840)</u>	<u>(65,163)</u>	<u>28,351</u>	<u>(498,652)</u>
Subtotal	<u>(680,917)</u>	<u>(87,947)</u>	<u>28,351</u>	<u>(740,513)</u>
Net Capital Assets Being Depreciated	<u>\$ 195,217</u>	<u>\$ 17,068</u>	<u>\$ -</u>	<u>\$ 212,285</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 Payables are as follows:

		DUE TO OTHER FUNDS	
		Nonmajor Governmental	
DUE FROM OTHER FUNDS	General Fund	\$	504
	Nonmajor Governmental		<u>42,490</u>
	Total	\$	<u>42,994</u>

		ADVANCES TO OTHER FUNDS	
		Public Improvement	
ADVANCES FROM OTHER FUNDS	Component Units Ambulance	\$	<u>122,709</u>

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

		TRANSFERS OUT				
		General Fund	Revenue Sharing Reserve	Nonmajor Governmental	Delinquent Tax	Total
TRANSFERS IN	General Fund	\$ -	\$ 458,405	\$ 12,300	\$ -	\$ 470,705
	Nonmajor Governmental	669,417	-	260,300	125,000	1,054,717
	Nonmajor Enterprise	<u>6,000</u>	-	<u>11,000</u>	-	<u>17,000</u>
	Total	<u>\$ 675,417</u>	<u>\$ 458,405</u>	<u>\$ 283,600</u>	<u>\$ 125,000</u>	<u>\$ 1,542,422</u>

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

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

**NOTE 7 - LONG-TERM DEBT**

Primary Government

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

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

	<u>Balance</u> <u>01/01/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Otsego County Building Authority Series 1991 Bonds, (Alpine Center Project) maturing serially through 2012 in annual amounts ranging from \$85,000 to \$95,000 and an interest rate of 7.0%.	\$ 180,000	\$ -	\$ 85,000	\$ 95,000	\$ 95,000
Otsego County Building Authority Series 1994-1 Bonds, maturing serially through 2014 in annual amounts ranging from \$45,000 to \$60,000 and at interest rates ranging from 6.1% to 6.3%.	215,000	-	50,000	165,000	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%.	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	-	20,000	1,840,000	170,000

**NOTE 7 - LONG-TERM DEBT (Continued)**

	<u>Balance</u> <u>01/01/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/11</u>	<u>Within</u> <u>One Year</u>
Otsego County Brownfield Redevelopment Authority loan, maturing through 2024 with payments starting in 2014 ranging from \$47,472 to \$48,184 and interest at 1.5%.	480,926	-	-	480,926	-
Vested Employee Benefits Payable (1)	<u>106,390</u>	-	<u>1,277</u>	<u>105,113</u>	-
Total Long-Term Debt	<u>\$ 2,992,316</u>	<u>\$ -</u>	<u>\$ 306,277</u>	<u>\$ 2,686,039</u>	<u>\$ 315,000</u>

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

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>
2012	\$ 315,000	\$ 74,270
2013	245,000	63,295
2014	293,184	54,205
2015	251,519	51,165
2016	247,142	44,318
2017-2021	1,100,383	93,341
2022-2026	<u>128,698</u>	<u>4,230</u>
Total	<u>\$ 2,580,926</u>	<u>\$ 384,824</u>

Road Commission – Component Unit

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

	<u>Balance</u> <u>01/01/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
General Obligation:					
Bonds Payable	\$ -	\$ 885,000	\$ -	\$ 885,000	\$ 30,000
Compensated Absences (1)	<u>62,631</u>	<u>9,173</u>	<u>-</u>	<u>71,804</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 62,631</u>	<u>\$ 894,173</u>	<u>\$ -</u>	<u>\$ 956,804</u>	<u>\$ 30,000</u>

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

**NOTE 7 - LONG-TERM DEBT (Continued)**

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

<u>Year End December 31</u>	<u>Amount</u>
2012	\$ 73,496
2013	66,238
2014	65,263
2015	69,163
2016	67,938
2017 - 2021	335,476
2022 - 2026	337,114
2027 - 2031	<u>338,995</u>
Total Payments	1,353,683
Less Interest and Fees	<u>(468,683)</u>
Net Balance Due	<u>\$ 885,000</u>

**NOTE 8 - VESTED EMPLOYEE BENEFITS**

Primary Government

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

Vested Employee Benefits Payable – Bus System (Enterprise Fund)

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

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

**NOTE 8 - VESTED EMPLOYEE BENEFITS (Continued)**

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, 2011 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, 2011 at current wage rates amounted to \$71,804 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>
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. All newly hired non-union County employees are enrolled in the Hybrid Plan. The following is a summary of each plan.

**Primary Government**

**DEFINED BENEFIT RETIREMENT PLAN**

Description of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), 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 46<sup>th</sup> 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, 2010.

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, 2011 is as follows:

<u>Division Name</u>	<u>Monthly \$ Amount or Employer %</u>
General Non-Union	\$ 4,293
Library Non-Union	9.10%
General Local 214	11.17%
POAM	10.78%

**NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

<u>Division Name</u>	<u>Monthly \$ Amount or Employer %</u>
Elected/Appointed Supervisors	\$ 17,806
Court Union	14.44%
Sheriff Union	\$ 5,855
Sheriff Union New Hire	8.80%
Library Director	13.92%

Annual Pension Cost

During the calendar year ended December 31, 2011, the County’s contributions totaled \$565,476 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, 2009, and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 28 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his project benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 590,169	100%	0
2009	633,642	100%	0
2010	716,885	100%	0

**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:

**NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

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

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

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

**Road Commission – Component Unit**

Description of Plan and Plan Assets

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

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

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

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

Actuarial Accrued Liability

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

**NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2010 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 12/31/10)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 6,776,704
Terminated employees not yet receiving benefits	75,725
Current Employees:	
Accumulated employees contributions including allocated investment income	-
Employer financed	<u>2,697,911</u>
Total actuarial accrued liability	9,550,340
Net assets available for benefits, at actuarial value (Market value is \$5,520,092)	<u>6,419,431</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 3,130,909</u>

GASB 27 INFORMATION (as of 12/31/10)

Fiscal year beginning	January 1, 2012
Annual required contribution (ARC)	\$ 288,204
Amortization factor used	0.055889

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, 2010 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 28 years. The following table provides a schedule of contribution amounts and percentages for recent years.

**NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Annual Pension Cost

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 256,452	100%	0
2009	281,074	100%	0
2010	288,204	100%	0

The Road Commission was required to contribute \$265,211 and elected to pay an additional \$120,000 for the year ended December 31, 2011. Payments were based on contribution calculation made by MERS.

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

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

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS**

Primary Government

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

*Funding Policy.* Contribution requirements also are negotiated between the County and employees. The County contributes 90% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2011, the County contributed \$120,109 to the plan. Total member contributions were \$31,095.

*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:

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Annual required contribution	\$ 386,186
Interest on net OPEB obligation	42,346
Adjustment to annual required contribution	<u>(62,337)</u>
Annual OPEB cost (expense)	366,195
Contributions made	<u>(151,204)</u>
Increase in net OPEB obligation	214,991
Net OPEB obligation – beginning of year	<u>1,058,657</u>
Net OPEB obligation – end of year	<u>\$ 1,273,648</u>

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009, 2010 and 2011 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>
2009	\$ 469,791	25%	\$ 695,226
2010	485,505	46%	1,058,657
2011	366,195	29%	1,273,648

*Funded Status and Funding Progress.* As of December 31, 2010, the actuarial accrued liability for benefits was \$3,742,809 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was 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.

*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.

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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 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.

*Funding Progress.* For the year ended December 31, 2011, the Road Commission has determined an estimated cost of providing post employment benefits through the alternative measurement method of calculation as of December 31, 2011. 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.

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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	150,864
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,499,712</u>
Contributions made	<u>(438,438)</u>
Decrease in net OPEB obligation	1,061,274
Net OPEB obligation – beginning of year	<u>3,771,592</u>
Net OPEB obligation – end of year	<u>\$ 4,832,866</u>

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009, 2010 and 2011 are as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 1,715,693	17.96%	\$ 2,682,247
2010	1,456,138	25.18%	3,771,592
2011	1,499,712	29.23%	4,832,866

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:

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.

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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

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

**NOTE 12 - DEFERRED COMPENSATION 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.

Component Unit – Road Commission

The Otsego County Road Commission offers it 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.

**NOTE 12 - DEFERRED COMPENSATION PLAN (Continued)**

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 that are received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the members' self-insurance retention limits along with certain other member-specific costs.

**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, 2011, the balance of the County’s member retention was \$206,439.

<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, 2011 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, 2011, 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, 2011, there were no claims that exceeded insurance coverage. The Ambulance Corporation had no significant reduction in insurance coverage from previous years.

Component Unit – Sportsplex

The Sportsplex is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Sportsplex's general liability and property insurance is included in the County's plan. Health insurance and workers' compensation is obtained through commercial insurance providers. At December 31, 2011, there were no claims that exceeded insurance coverage. The Sportsplex had no significant reduction in insurance coverage from previous years.

**NOTE 14 - CONTINGENT LIABILITIES**

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2011.

**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:

2012	<u>11,461</u>
Total minimum lease payments	11,461
Less amount representing interest	<u>(282)</u>
Present value of minimum lease payment	<u>\$ 11,179</u>

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

2012	\$ 36,365
2013	20,576
2014	4,787
2015	4,787
2016	<u>3,989</u>
Total minimum lease payments	70,504
Less amount representing interest	<u>(8,458)</u>
Present value of minimum lease payment	<u>\$ 62,046</u>

## **Required Supplementary Information**

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**Pension:**

*Primary Government*

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

	2008	2009	2010
Actuarial Value of Assets	\$ 10,999,940	\$ 11,454,248	\$ 12,086,707
Actuarial Accrued Liability	15,670,181	15,660,103	16,602,287
Unfunded AAL	4,670,241	4,205,855	4,515,580
Funded Ratio	70%	73%	73%
Covered Payroll	4,441,009	4,426,638	4,384,058
UAAL as a Percentage of Covered Payroll	105%	95%	103%

*Road Commission – Component Unit*

	2008	2009	2010
Actuarial Value of Assets	\$ 6,593,589	\$ 6,541,763	\$ 6,419,431
Actuarial Accrued Liability	8,917,923	9,253,348	9,550,340
Unfunded AAL	2,324,334	2,711,585	3,130,909
Funded Ratio	74%	71%	67%
Covered Payroll	1,360,494	1,365,098	1,198,321
UAAL as a Percentage of Covered Payroll	171%	199%	261%

**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	-
2011	\$	-	\$ 3,742,809	\$ 3,742,809	0.0%	Not Available	-

*Road Commission – Component Unit*

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

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes and Penalties	\$ 4,686,521	\$ 4,686,521	\$ 4,506,299	\$ (180,222)
Licenses and Permits	35,800	35,800	46,860	11,060
Federal Sources	494,020	413,467	364,365	(49,102)
State Sources	666,882	797,744	741,365	(56,379)
Local Contributions	10,000	10,000	10,045	45
Charges for Services	802,340	811,340	880,564	69,224
Fines & Forfeits	14,500	14,500	15,217	717
Interest & Rentals	100,000	100,000	105,398	5,398
Other Revenues	212,027	261,608	273,537	11,929
<b>TOTAL REVENUES</b>	<b>7,022,090</b>	<b>7,130,980</b>	<b>6,943,650</b>	<b>(187,330)</b>
<b>EXPENDITURES:</b>				
<b>Legislative:</b>				
Board of Commissioners	187,198	196,004	184,733	11,271
<b>Judicial:</b>				
Circuit Court	1,133,750	1,142,456	1,053,789	88,667
Drug Court	80,705	87,805	56,284	31,521
RDSS Transport	20,000	20,000	7,765	12,235
Mental Health	-	35,000	16,510	18,490
District Court	67,266	68,046	67,889	157
Friend of the Court	402,993	404,055	395,829	8,226
Jury Commission	28,350	28,350	23,564	4,786
Probate Court	173,767	172,987	171,053	1,934
Family Counseling	4,000	4,000	1,569	2,431
<b>Total Judicial</b>	<b>1,910,831</b>	<b>1,962,699</b>	<b>1,794,252</b>	<b>168,447</b>
<b>General Government:</b>				
Administrative Services	252,029	253,029	253,029	-
Building & Grounds	1,720	1,720	503	1,217
Clerk and Register of Deeds	230,737	241,238	228,460	12,778
Audit Services	15,785	15,785	15,785	-
IT Department	56,179	56,179	46,224	9,955
Equalization	251,834	240,590	238,118	2,472
Treasurer	87,981	92,429	91,332	1,097
Cooperative Extension	49,248	49,248	48,487	761
Elections	20,752	20,752	85	20,667
Prosecuting Attorney	500,830	497,204	458,889	38,315
Surveyor	200	200	200	-
Soil Conservation	4,000	4,000	4,000	-
Survey and Re monumentation	37,900	37,900	29,539	8,361
<b>Total General Government</b>	<b>1,509,195</b>	<b>1,510,274</b>	<b>1,414,651</b>	<b>95,623</b>
<b>Public Safety:</b>				
Sheriff	680,181	638,229	595,399	42,830
Civil Division	31,293	33,938	32,736	1,202
SANE	5,000	10,000	10,000	-
Justice Training	-	2,680	2,565	115
Marine Safety	9,605	7,641	7,581	60
Motorcycle Safety Education	49,145	57,611	46,506	11,105
Snowmobile	9,605	9,605	1,491	8,114
Secondary Road Patrol	50,204	73,980	68,535	5,445
ORV	9,605	10,962	10,381	581
Jail	906,487	938,877	874,164	64,713
Emergency Services	45,705	45,705	40,214	5,491
<b>Total Public Safety</b>	<b>1,796,830</b>	<b>1,829,228</b>	<b>1,689,572</b>	<b>139,656</b>

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Drains	6,000	6,000	-	6,000
Total Public Works	6,000	6,000	-	6,000
Health And Welfare:				
Communicable Diseases	500	500	500	-
Medical Examiner	72,283	100,033	98,249	1,784
District Health	165,000	165,000	165,000	-
Mental Health	94,003	94,003	94,003	-
Veterans' Burial	10,200	10,200	8,207	1,993
Veterans' Affairs	32,593	36,935	32,524	4,411
Substance Abuse	69,124	80,396	80,395	1
Total Health and Welfare	443,703	487,067	478,878	8,189
Community and Economic Development:				
Planning and Zoning	63,798	85,869	81,240	4,629
Total Community and Economic Development	63,798	85,869	81,240	4,629
Capital Outlay:				
Equipment	25,000	65,805	58,469	7,336
Total Capital Outlay	25,000	65,805	58,469	7,336
Other Expenditures:				
Appropriations	3,500	3,500	3,500	-
Bonds and Insurance	313,186	287,697	282,652	5,045
Retiree Insurance	90,000	100,129	100,129	-
Other	628,411	519,590	514,046	5,544
Total Other Expenditures	1,035,097	910,916	900,327	10,589
<b>TOTAL EXPENDITURES</b>	<b>6,977,652</b>	<b>7,053,862</b>	<b>6,602,122</b>	<b>444,404</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>44,438</b>	<b>77,118</b>	<b>341,528</b>	<b>264,410</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	652,508	683,394	679,705	(3,689)
Operating Transfers Out	(596,946)	(675,417)	(675,417)	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 100,000</b>	<b>\$ 85,095</b>	<b>345,816</b>	<b>\$ 260,721</b>
<b>FUND BALANCES, JANUARY 1</b>			<b>2,347,334</b>	
<b>FUND BALANCES, DECEMBER 31</b>			<b>\$ 2,693,150</b>	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Housing Commission Fund  
For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Federal Sources	\$ 464,994	\$ 485,356	\$ 338,598	\$ (146,758)
Local Sources	107,000	107,000	55,525	(51,475)
Interest and Rentals	550	550	204	(346)
Other Revenues	47,100	50,466	54,201	3,735
<b>TOTAL REVENUES</b>	<b>619,644</b>	<b>643,372</b>	<b>448,528</b>	<b>(194,844)</b>
<b>EXPENDITURES:</b>				
Community and Economic Development	604,277	607,477	579,272	28,205
<b>TOTAL EXPENDITURES</b>	<b>604,277</b>	<b>607,477</b>	<b>579,272</b>	<b>28,205</b>
<b>EXCESS OF REVENUES (EXPENDITURES)</b>	<b>15,367</b>	<b>35,895</b>	<b>(130,744)</b>	<b>(166,639)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	89,250	89,250	-	(89,250)
Operating Transfers Out	(104,617)	(125,145)	-	125,145
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(130,744)</b>	<b>\$ (130,744)</b>
<b>FUND BALANCE, JANUARY 1</b>			<b>251,537</b>	
<b>FUND BALANCE, DECEMBER 31</b>			<b>\$ 120,793</b>	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Revenue Sharing Reserve Fund  
For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest & Rentals	\$ -	\$ -	\$ 20,068	\$ 20,068
TOTAL REVENUES	-	-	20,068	20,068
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(460,208)	(460,208)	(458,405)	1,803
EXCESS (DEFICIENCY) OF REVENUES OVER OTHER FINANCING USES	\$ (460,208)	\$ (460,208)	(438,337)	\$ 21,871
FUND BALANCE, JANUARY 1			1,998,566	
FUND BALANCE, DECEMBER 31			\$ 1,560,229	

Required Supplementary Information  
 Budgetary Comparison Schedule  
 Library Fund  
 For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 476,572	\$ 476,572	\$ 469,098	\$ (7,474)
State Sources	25,240	25,240	28,057	2,817
Local Contributions	2,650	2,650	4,250	
Charges for Services	1,250	1,250	4,035	
Fines & Forfeits	185,500	185,500	181,729	(3,771)
Interest and Rentals	11,000	11,000	8,728	(2,272)
Other Revenues	8,977	8,977	17,267	8,290
<b>TOTAL REVENUES</b>	<b>711,189</b>	<b>711,189</b>	<b>713,164</b>	<b>(2,410)</b>
EXPENDITURES:				
Recreation and Culture	711,189	711,189	655,439	55,750
<b>TOTAL EXPENDITURES</b>	<b>711,189</b>	<b>711,189</b>	<b>655,439</b>	<b>55,750</b>
<b>EXCESS OF REVENUES (EXPENDITURES)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>57,725</b>	<b>\$ 53,340</b>
FUND BALANCE, JANUARY 1			458,626	
FUND BALANCE, DECEMBER 31			<b>\$ 516,351</b>	

## **Other Supplementary Information**

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**County of Otseog, Michigan**

**Combining Balance Sheet  
General Funds  
December 31, 2011**

	General	Budget Stabilization	Legal Defense	Soldiers and Sailors Relief	Equipment Revolving	Totals
<b>ASSETS:</b>						
Cash and Equivalents - Unrestricted	\$ 248,533	\$ -	\$ -	\$ 17,303	\$ 26,890	\$ 292,726
Investments - Unrestricted	1,093,986	1,159,497	122,688	-	-	2,376,171
Receivables:						
Taxes	119,563	-	-	-	-	119,563
Accounts	76,096	-	-	-	-	76,096
Due from Other Funds	-	-	-	-	504	504
Due from Other Governmental Units	183,812	-	-	-	-	183,812
Inventories	10,588	-	-	-	-	10,588
Prepays	16,385	-	-	-	-	16,385
<b>TOTAL ASSETS</b>	<b>\$ 1,748,963</b>	<b>\$ 1,159,497</b>	<b>\$ 122,688</b>	<b>\$ 17,303</b>	<b>\$ 27,394</b>	<b>\$ 3,075,845</b>
<b>LIABILITIES:</b>						
Accounts Payable	\$ 109,349	\$ -	\$ 3,318	\$ 1,086	\$ 23,279	\$ 137,032
Accrued Liabilities	75,834	-	-	-	-	75,834
Deferred Revenue	169,829	-	-	-	-	169,829
<b>TOTAL LIABILITIES</b>	<b>355,012</b>	<b>-</b>	<b>3,318</b>	<b>1,086</b>	<b>23,279</b>	<b>382,695</b>
<b>FUND BALANCES:</b>						
Nonspendable	26,973	-	-	-	-	26,973
Restricted for Grants	4,663	-	-	-	-	4,663
Committed	-	-	-	-	4,115	4,115
Assigned	49,875	1,159,497	119,370	16,217	-	1,344,959
Unassigned	1,312,440	-	-	-	-	1,312,440
<b>TOTAL FUND BALANCES</b>	<b>1,393,951</b>	<b>1,159,497</b>	<b>119,370</b>	<b>16,217</b>	<b>4,115</b>	<b>2,693,150</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,748,963</b>	<b>\$ 1,159,497</b>	<b>\$ 122,688</b>	<b>\$ 17,303</b>	<b>\$ 27,394</b>	<b>\$ 3,075,845</b>

**Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balance - General Funds  
For the Year Ended December 31, 2011**

	General	Budget Stabilization	Legal Defense	Soldiers and Sailors Relief	Equipment Revolving	Totals
<b>REVENUES:</b>						
Taxes and Penalties	\$ 4,506,299	\$ -	\$ -	\$ -	\$ -	\$ 4,506,299
Licenses and Permits	46,860	-	-	-	-	46,860
Federal Sources	364,365	-	-	-	-	364,365
State Sources	741,365	-	-	-	-	741,365
Local Sources	10,045	-	-	-	-	10,045
Charges for Services	880,564	-	-	-	-	880,564
Interest and Rentals	91,656	13,094	131	-	517	105,398
Fines and Forfeitures	15,217	-	-	-	-	15,217
Other Revenue	271,732	-	-	1,341	464	273,537
<b>TOTAL REVENUES</b>	<b>6,928,103</b>	<b>13,094</b>	<b>131</b>	<b>1,341</b>	<b>981</b>	<b>6,943,650</b>
<b>EXPENDITURES:</b>						
Legislative	184,733	-	-	-	-	184,733
Judicial	1,794,252	-	-	-	-	1,794,252
General Government	1,382,076	-	32,575	-	-	1,414,651
Public Safety	1,689,572	-	-	-	-	1,689,572
Health and Welfare	471,148	-	-	7,730	-	478,878
Community/Economic Development	81,240	-	-	-	-	81,240
Capital Outlay	-	-	-	-	58,469	58,469
Other Expenditures	900,327	-	-	-	-	900,327
<b>TOTAL EXPENDITURES</b>	<b>6,503,348</b>	<b>-</b>	<b>32,575</b>	<b>7,730</b>	<b>58,469</b>	<b>6,602,122</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>424,755</b>	<b>13,094</b>	<b>(32,444)</b>	<b>(6,389)</b>	<b>(57,488)</b>	<b>341,528</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating Transfers In	470,705	100,000	50,000	5,000	54,000	679,705
Operating Transfers Out	(675,417)	-	-	-	-	(675,417)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>220,043</b>	<b>113,094</b>	<b>17,556</b>	<b>(1,389)</b>	<b>(3,488)</b>	<b>345,816</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>1,173,908</b>	<b>1,046,403</b>	<b>101,814</b>	<b>17,606</b>	<b>7,603</b>	<b>2,347,334</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 1,393,951</b>	<b>\$ 1,159,497</b>	<b>\$ 119,370</b>	<b>\$ 16,217</b>	<b>\$ 4,115</b>	<b>\$ 2,693,150</b>

	Special Revenue Funds								
	Work Camp	Parks & Recreation	Groen Nature Preserve	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Register of Deeds Automation Fund
<b>ASSETS:</b>									
Cash and Equivalents	\$ 83,851	\$ 171,471	\$ 50,000	\$ 17,126	\$ 361,362	\$ 8,161	\$ -	\$ 254,669	\$ 31,232
Investments	-	25,000	-	-	-	-	143,947	-	-
Taxes Receivable	-	219,920	-	-	351,047	-	-	-	-
Accounts Receivable	8,440	428	-	-	460	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	-	-	10,959	-	-	-	-	-
Prepaid Expense	-	-	-	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 92,291</b>	<b>\$ 416,819</b>	<b>\$ 50,000</b>	<b>\$ 28,085</b>	<b>\$ 712,869</b>	<b>\$ 8,161</b>	<b>\$ 143,947</b>	<b>\$ 254,669</b>	<b>\$ 31,232</b>
<b>LIABILITIES:</b>									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	1,240	3,029	-	3,055	6,276	-	5,426	2,032	1,037
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
Accrued Liabilities	2,564	4,854	-	1,066	4,098	-	-	2,467	-
Deferred Revenues	-	219,920	-	-	351,047	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>3,804</b>	<b>227,803</b>	<b>-</b>	<b>4,121</b>	<b>361,421</b>	<b>-</b>	<b>5,426</b>	<b>4,499</b>	<b>1,037</b>
<b>FUND EQUITY:</b>									
Fund Balances:									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted for Schneider Trust	-	-	-	-	-	-	-	-	-
Restricted for COA	-	-	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	88,487	189,016	50,000	23,964	351,448	8,161	138,521	250,170	30,195
<b>TOTAL FUND EQUITY</b>	<b>88,487</b>	<b>189,016</b>	<b>50,000</b>	<b>23,964</b>	<b>351,448</b>	<b>8,161</b>	<b>138,521</b>	<b>250,170</b>	<b>30,195</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 92,291</b>	<b>\$ 416,819</b>	<b>\$ 50,000</b>	<b>\$ 28,085</b>	<b>\$ 712,869</b>	<b>\$ 8,161</b>	<b>\$ 143,947</b>	<b>\$ 254,669</b>	<b>\$ 31,232</b>

**Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2011**

	Special Revenue Funds								
	M-TEC	Commission on Aging 9/30/2011	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services	Child Care Probate
<b>ASSETS:</b>									
Cash and Equivalents	\$ 2,007	\$ 736,566	\$ 355,780	\$ -	\$ 10,000	\$ 14,735	\$ 5,666	\$ 6,892	\$ 323,856
Investments	-	44,000	-	12,712	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-	-
Accounts Receivable	-	33,972	129,652	-	-	-	-	-	1,093
Due from Other Funds	-	-	30,490	-	-	-	-	-	-
Due from Other Governmental Units	-	-	36,520	101,626	2,577	-	-	-	19,208
Prepaid Expense	-	-	-	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-	-
Inventory	-	604	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 2,007</u>	<u>\$ 815,142</u>	<u>\$ 552,442</u>	<u>\$ 114,338</u>	<u>\$ 12,577</u>	<u>\$ 14,735</u>	<u>\$ 5,666</u>	<u>\$ 6,892</u>	<u>\$ 344,157</u>
<b>LIABILITIES:</b>									
Due to Other Funds	\$ -	\$ -	\$ -	\$ 20,490	\$ 10,000	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	14,878	93,678	2,577	-	-	-	28,336
Due to Other Governmental Units	-	-	-	-	-	-	-	-	2,265
Accrued Liabilities	-	29,873	13,293	-	-	-	-	-	3,471
Deferred Revenues	-	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>29,873</u>	<u>28,171</u>	<u>114,168</u>	<u>12,577</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,072</u>
<b>FUND EQUITY:</b>									
Fund Balances:									
Nonspendable	-	604	-	-	-	-	-	-	-
Restricted for Schneider Trust	-	44,000	-	-	-	-	-	-	-
Restricted for COA	-	740,665	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	-	-	-	-	-	-	-
Committed	2,007	-	-	-	-	-	-	-	-
Assigned	-	-	524,271	170	-	14,735	5,666	6,892	310,085
<b>TOTAL FUND EQUITY</b>	<u>2,007</u>	<u>785,269</u>	<u>524,271</u>	<u>170</u>	<u>-</u>	<u>14,735</u>	<u>5,666</u>	<u>6,892</u>	<u>310,085</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 2,007</u>	<u>\$ 815,142</u>	<u>\$ 552,442</u>	<u>\$ 114,338</u>	<u>\$ 12,577</u>	<u>\$ 14,735</u>	<u>\$ 5,666</u>	<u>\$ 6,892</u>	<u>\$ 344,157</u>

**Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2011**

	Special Revenue Funds				Debt	Capital Project Funds			
	Veteran's Trust	Airport	Airport Special Events	Airport Planning Grant	Bradford Lake Dam	Jail Debt Service	Public Improvements	Animal Control Shelter Building	Library Building
<b>ASSETS:</b>									
Cash and Equivalents	\$ 1,972	\$ 26,652	\$ 4,910	\$ 10,250	\$ 20,068	\$ 100,134	\$ 594,131	\$ 218,409	\$ 91,686
Investments	-	-	-	-	-	-	538,000	-	425,569
Taxes Receivable	-	-	-	-	-	-	-	-	-
Accounts Receivable	-	45,803	-	-	-	1,975	481	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	-	-	9,750	-	-	-	-	-
Prepaid Expense	-	-	571	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	122,709	-	-
Inventory	-	9,562	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,972</b>	<b>\$ 82,017</b>	<b>\$ 5,481</b>	<b>\$ 20,000</b>	<b>\$ 20,068</b>	<b>\$ 102,109</b>	<b>\$ 1,255,321</b>	<b>\$ 218,409</b>	<b>\$ 517,255</b>
<b>LIABILITIES:</b>									
Due to Other Funds	\$ -	\$ 504	\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	54,612	-	-	-	-	-	61,821	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
Accrued Liabilities	-	-	-	-	-	-	-	-	-
Deferred Revenues	-	-	149	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>55,116</b>	<b>149</b>	<b>12,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,821</b>	<b>-</b>
<b>FUND EQUITY:</b>									
Fund Balances:									
Nonspendable	-	9,562	571	-	-	-	122,709	-	-
Restricted for Schneider Trust	-	-	-	-	-	-	-	-	-
Restricted for COA	-	-	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	-	-	-	102,109	-	-	-
Committed	-	-	-	-	-	-	1,132,612	156,588	517,255
Assigned	1,972	17,339	4,761	8,000	20,068	-	-	-	-
<b>TOTAL FUND EQUITY</b>	<b>1,972</b>	<b>26,901</b>	<b>5,332</b>	<b>8,000</b>	<b>20,068</b>	<b>102,109</b>	<b>1,255,321</b>	<b>156,588</b>	<b>517,255</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,972</b>	<b>\$ 82,017</b>	<b>\$ 5,481</b>	<b>\$ 20,000</b>	<b>\$ 20,068</b>	<b>\$ 102,109</b>	<b>\$ 1,255,321</b>	<b>\$ 218,409</b>	<b>\$ 517,255</b>

	Capital Project Funds					Total
	Court Restoration Building	Airport Construction	Groen Nature Preserve Capital Projects	Road Commission Salt Building Capital Project	Capital Projects	
ASSETS:						
Cash and Equivalents	\$ 26,211	\$ 21,684	\$ -	\$ 84,990	\$ -	\$ 3,634,471
Investments	-	-	-	-	173,132	1,362,360
Taxes Receivable	-	-	-	-	-	570,967
Accounts Receivable	-	-	-	-	-	222,304
Due from Other Funds	-	-	-	-	12,000	42,490
Due from Other Governmental Units	-	-	-	-	-	180,640
Prepaid Expense	-	-	-	-	-	571
Long-Term Advances to Component Units	-	-	-	-	-	122,709
Inventory	-	-	-	-	-	10,166
<b>TOTAL ASSETS</b>	<b>\$ 26,211</b>	<b>\$ 21,684</b>	<b>\$ -</b>	<b>\$ 84,990</b>	<b>\$ 185,132</b>	<b>\$ 6,146,678</b>
LIABILITIES:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,994
Accounts Payable	3,872	-	-	84,990	-	366,859
Due to Other Governmental Units	-	-	-	-	-	2,265
Accrued Liabilities	-	-	-	-	-	61,686
Deferred Revenues	-	-	-	-	-	571,116
<b>TOTAL LIABILITIES</b>	<b>3,872</b>	<b>-</b>	<b>-</b>	<b>84,990</b>	<b>-</b>	<b>1,044,920</b>
FUND EQUITY:						
Fund Balances:						
Nonspendable	-	-	-	-	-	133,446
Restricted for Schneider Trust	-	-	-	-	-	44,000
Restricted for COA	-	-	-	-	-	740,665
Restricted for Debt Service	-	-	-	-	-	102,109
Committed	22,339	21,684	-	-	185,132	2,037,617
Assigned	-	-	-	-	-	2,043,921
<b>TOTAL FUND EQUITY</b>	<b>22,339</b>	<b>21,684</b>	<b>-</b>	<b>-</b>	<b>185,132</b>	<b>5,101,758</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 26,211</b>	<b>\$ 21,684</b>	<b>\$ -</b>	<b>\$ 84,990</b>	<b>\$ 185,132</b>	<b>\$ 6,146,678</b>

# County of Otsego, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2011

### Special Revenue Funds

	Work Camp	Parks & Recreation	Groen Nature Preserve	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Register of Deeds Automation Fund
<b>REVENUES:</b>									
Taxes and Penalties	\$ -	\$ 291,280	\$ -	\$ -	\$ 350,256	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	-	46,002	-	-	-	-	-
State Sources	21,320	2,515	-	-	-	-	-	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	48,334	144,406	-	9,172	41,561	-	-	349,326	35,138
Fines & Forfeits	13	-	-	-	-	-	-	-	-
Interest & Rentals	-	606	-	-	1,420	-	185	-	-
Other Revenues	-	20,551	50,000	-	12,084	531	-	1,417	-
<b>TOTAL REVENUES</b>	<b>69,667</b>	<b>459,358</b>	<b>50,000</b>	<b>55,174</b>	<b>405,321</b>	<b>531</b>	<b>185</b>	<b>350,743</b>	<b>35,138</b>
<b>EXPENDITURES:</b>									
Judicial	-	-	-	69,644	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	20,020
Public Safety	103,901	-	-	-	271,990	70	-	266,553	-
Public Works	-	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	-	-	17,288	-	-
Community/Economic Development	-	-	-	-	-	-	-	-	-
Recreation and Culture	-	427,955	-	-	-	-	-	-	-
Other Expenditures	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	2,600	-	-	45,864	-
Debt Service	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>103,901</b>	<b>427,955</b>	<b>-</b>	<b>69,644</b>	<b>274,590</b>	<b>70</b>	<b>17,288</b>	<b>312,417</b>	<b>20,020</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(34,234)</b>	<b>31,403</b>	<b>-</b>	<b>(14,470)</b>	<b>130,731</b>	<b>461</b>	<b>(17,103)</b>	<b>38,326</b>	<b>15,118</b>
<b>OTHER FINANCING SOURCES (USES):</b>									
Loan Proceeds	-	-	-	-	-	-	-	-	-
Operating Transfers In	67,250	-	-	188	2,300	-	-	-	-
Operating Transfers Out	-	-	-	-	(250,000)	(2,300)	-	(6,000)	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>33,016</b>	<b>31,403</b>	<b>50,000</b>	<b>(14,282)</b>	<b>(116,969)</b>	<b>(1,839)</b>	<b>(17,103)</b>	<b>32,326</b>	<b>15,118</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>55,471</b>	<b>157,613</b>	<b>-</b>	<b>38,246</b>	<b>468,417</b>	<b>10,000</b>	<b>155,624</b>	<b>217,844</b>	<b>15,077</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 88,487</b>	<b>\$ 189,016</b>	<b>\$ 50,000</b>	<b>\$ 23,964</b>	<b>\$ 351,448</b>	<b>\$ 8,161</b>	<b>\$ 138,521</b>	<b>\$ 250,170</b>	<b>\$ 30,195</b>

# County of Otsego, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2011

### Special Revenue Funds

	M-TEC	Commission on Aging 9/30/2011	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services	Child Care Probate
<b>REVENUES:</b>									
Taxes and Penalties	\$ 772,459	\$ 1,175,771	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	158,805	-	1,047,576	2,577	-	-	-	11,820
State Sources	-	54,547	-	-	-	-	-	-	166,550
Local Sources	-	112,017	-	-	-	-	-	-	-
Charges for Services	-	71,647	665,925	-	-	555	3,500	-	-
Fines & Forfeits	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	7,753	368	140	-	-	-	-	-
Other Revenues	-	86,035	24,904	-	-	-	-	4,772	65,331
<b>TOTAL REVENUES</b>	<b>772,459</b>	<b>1,666,575</b>	<b>691,197</b>	<b>1,047,716</b>	<b>2,577</b>	<b>555</b>	<b>3,500</b>	<b>4,772</b>	<b>243,701</b>
<b>EXPENDITURES:</b>									
Judicial	-	-	-	-	-	-	-	-	-
General Government	-	-	-	-	2,577	-	3,800	-	-
Public Safety	-	-	579,099	274,887	-	3,430	-	-	-
Public Works	-	-	-	-	-	-	-	-	-
Health And Welfare	-	1,597,452	-	-	-	-	-	4,364	465,440
Community/Economic Development	770,738	-	-	-	-	-	-	-	-
Recreation and Culture	-	-	-	-	-	-	-	-	-
Other Expenditures	-	-	-	-	-	-	-	-	-
Capital Outlay	-	15,150	39,994	773,496	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>770,738</b>	<b>1,612,602</b>	<b>619,093</b>	<b>1,048,383</b>	<b>2,577</b>	<b>3,430</b>	<b>3,800</b>	<b>4,364</b>	<b>465,440</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,721</b>	<b>53,973</b>	<b>72,104</b>	<b>(667)</b>	<b>-</b>	<b>(2,875)</b>	<b>(300)</b>	<b>408</b>	<b>(221,739)</b>
<b>OTHER FINANCING SOURCES (USES):</b>									
Loan Proceeds	-	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-	-	200,633
Operating Transfers Out	-	-	(17,300)	-	-	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>1,721</b>	<b>53,973</b>	<b>54,804</b>	<b>(667)</b>	<b>-</b>	<b>(2,875)</b>	<b>(300)</b>	<b>408</b>	<b>(21,106)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>286</b>	<b>731,296</b>	<b>469,467</b>	<b>837</b>	<b>-</b>	<b>17,610</b>	<b>5,966</b>	<b>6,484</b>	<b>331,191</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 2,007</b>	<b>\$ 785,269</b>	<b>\$ 524,271</b>	<b>\$ 170</b>	<b>\$ -</b>	<b>\$ 14,735</b>	<b>\$ 5,666</b>	<b>\$ 6,892</b>	<b>\$ 310,085</b>

# County of Otsego, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2011

	Special Revenue Funds				Debt	Capital Project Funds			
	Veteran's Trust	Airport	Airport Special Events	Airport Planning Grant	Bradford Lake Dam	Jail Debt Service	Public Improvement	Animal Control Shelter Building	Library Building
REVENUES:									
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	192,301	-	9,750	-	-	-	-	-
State Sources	2,475	-	-	-	-	-	-	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	-	865,772	30,166	-	-	6,708	-	-	-
Fines & Forfeits	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	19,408	-	-	-	122,940	28,990	1,733	4,684
Other Revenues	-	8,584	29,088	-	-	231,400	17,839	45	-
<b>TOTAL REVENUES</b>	<b>2,475</b>	<b>1,086,065</b>	<b>59,254</b>	<b>9,750</b>	<b>-</b>	<b>361,048</b>	<b>46,829</b>	<b>1,778</b>	<b>4,684</b>
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-
Public Works	-	1,278,050	60,373	9,750	599	-	-	-	-
Health And Welfare	922	-	-	-	-	-	-	-	-
Community/Economic Development	-	-	-	-	-	-	-	-	-
Recreation and Culture	-	-	-	-	-	-	-	-	-
Other Expenditures	-	-	-	-	-	-	300,000	-	-
Capital Outlay	-	-	-	-	-	-	-	860,796	-
Debt Service	-	-	-	-	-	390,295	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>922</b>	<b>1,278,050</b>	<b>60,373</b>	<b>9,750</b>	<b>599</b>	<b>390,295</b>	<b>300,000</b>	<b>860,796</b>	<b>-</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,553	(191,985)	(1,119)	-	(599)	(29,247)	(253,171)	(859,018)	4,684
OTHER FINANCING SOURCES (USES):									
Loan Proceeds	-	-	-	-	-	-	-	300,000	-
Operating Transfers In	-	175,500	-	8,000	-	81,946	-	250,000	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	1,553	(16,485)	(1,119)	8,000	(599)	52,699	(253,171)	(309,018)	4,684
FUND BALANCES, JANUARY 1	419	43,386	6,451	-	20,667	49,410	1,508,492	465,606	512,571
FUND BALANCES, DECEMBER 31	\$ 1,972	\$ 26,901	\$ 5,332	\$ 8,000	\$ 20,068	\$ 102,109	\$ 1,255,321	\$ 156,588	\$ 517,255

# County of Otsego, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2011

	Capital Project Funds					Total
	Court Restoration Building	Airport Construction	Groen Nature Preserve Capital Projects	Road Commisson Salt Building Capital Project	Capital Project	
REVENUES:						
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,589,766
Federal Sources	-	613,100	-	-	-	2,081,931
State Sources	-	-	-	-	-	247,407
Local Sources	-	-	1,067,500	-	-	1,179,517
Charges for Services	45,629	-	-	-	-	2,317,839
Fines & Forfeits	-	-	-	-	-	13
Interest & Rentals	-	-	-	-	305	188,532
Other Revenues	-	-	-	-	350	552,931
<b>TOTAL REVENUES</b>	<b>45,629</b>	<b>613,100</b>	<b>1,067,500</b>	<b>-</b>	<b>655</b>	<b>9,157,936</b>
EXPENDITURES:						
Judicial	-	-	-	-	-	69,644
General Government	-	-	-	-	-	26,397
Public Safety	-	-	-	-	-	1,499,930
Public Works	-	-	-	-	-	1,348,772
Health And Welfare	-	-	-	-	-	2,085,466
Community/Economic Development	-	-	-	-	-	770,738
Recreation and Culture	-	-	-	-	-	427,955
Other Expenditures	-	-	-	-	-	300,000
Capital Outlay	40,128	637,053	1,067,500	-	131,109	3,613,690
Debt Service	-	-	-	-	-	390,295
<b>TOTAL EXPENDITURES</b>	<b>40,128</b>	<b>637,053</b>	<b>1,067,500</b>	<b>-</b>	<b>131,109</b>	<b>10,532,887</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,501	(23,953)	-	-	(130,454)	(1,374,951)
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	-	-	300,000
Operating Transfers In	-	4,500	-	-	55,400	845,717
Operating Transfers Out	-	-	-	-	(8,000)	(283,600)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	5,501	(19,453)	-	-	(83,054)	(512,834)
FUND BALANCES, JANUARY 1	16,838	41,137	-	-	268,186	5,614,592
FUND BALANCES, DECEMBER 31	<u>\$ 22,339</u>	<u>\$ 21,684</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,132</u>	<u>\$ 5,101,758</u>

**Combining Statement of Net Assets  
Internal Service Funds  
December 31, 2011**

	Building and Grounds	Administrative Services	Health Care	Total
<b>ASSETS:</b>				
Current Assets:				
Cash and Equivalents	\$ 346,509	\$ 66,298	\$ 2,000	\$ 414,807
Investments	-	-	456,339	456,339
Accounts Receivable	2,911	-	2,652	5,563
Due from Governmental Units	735	-	-	735
Prepaid Expense	-	-	51,470	51,470
Inventory	-	325	-	325
TOTAL ASSETS	\$ 350,155	\$ 66,623	\$ 512,461	\$ 929,239
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	\$ 23,515	\$ 538	\$ 9,839	\$ 33,892
Accrued Liabilities	-	2,646	-	2,646
TOTAL LIABILITIES	23,515	3,184	9,839	36,538
<b>NET ASSETS:</b>				
Unrestricted	326,640	63,439	502,622	892,701
TOTAL NET ASSETS	326,640	63,439	502,622	892,701
TOTAL LIABILITIES AND NET ASSETS	\$ 350,155	\$ 66,623	\$ 512,461	\$ 929,239

**Combining Statement of Revenues, Expenses, and Changes  
in Net Assets - Internal Service Funds  
For the Year Ended December 31, 2011**

	<u>Building and Grounds</u>	<u>Administrative Services</u>	<u>Health Care</u>	<u>Total</u>
OPERATING REVENUES:				
Charges for Services	\$ 529,582	\$ 400,144	\$ 984,472	\$ 1,914,198
Other	328	2,830	-	3,158
	<u>529,910</u>	<u>402,974</u>	<u>984,472</u>	<u>1,917,356</u>
TOTAL OPERATING REVENUES				
OPERATING EXPENSES:				
Salaries, Wages, and Fringe Benefits	-	383,082	-	383,082
Contractual Services	233,744	2,158	-	235,902
Materials and Supplies	-	3,318	-	3,318
Equipment Repair and Maintenance	33,292	532	-	33,824
Utilities	199,251	949	-	200,200
Other	20,916	9,325	987,522	1,017,763
	<u>487,203</u>	<u>399,364</u>	<u>987,522</u>	<u>1,874,089</u>
TOTAL OPERATING EXPENSES				
OPERATING INCOME (LOSS)	42,707	3,610	(3,050)	43,267
Non Operating Revenues (Expenses):				
Interest Earnings	-	-	352	352
	<u>42,707</u>	<u>3,610</u>	<u>(2,698)</u>	<u>43,619</u>
Changes in Net Assets				
Net Assets - January 1, 2011	283,933	59,829	505,320	849,082
	<u>283,933</u>	<u>59,829</u>	<u>505,320</u>	<u>849,082</u>
Net Assets - December 31, 2011	\$ 326,640	\$ 63,439	\$ 502,622	\$ 892,701
	<u>\$ 326,640</u>	<u>\$ 63,439</u>	<u>\$ 502,622</u>	<u>\$ 892,701</u>

# County of Otsego, Michigan

## Combining Statement of Cash Flows Internal Service Funds For the Year Ended December 31, 2011

	Building and Grounds	Administrative Services	Health Care	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from Customers	\$ 530,061	\$ 402,974	\$ 931,085	\$ 1,864,120
Payments to Suppliers	(514,153)	(18,513)	(983,242)	(1,515,908)
Payments to Employees for Services and Benefits	-	(382,951)	-	(382,951)
Net Cash Provided (Used) by Operating Activities	<u>15,908</u>	<u>1,510</u>	<u>(52,157)</u>	<u>(34,739)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest Earnings	-	-	352	352
Net Sale or (Purchase) of Investments	-	-	53,805	53,805
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>-</u>	<u>54,157</u>	<u>54,157</u>
Net Increase (Decrease) in Cash and Equivalents	15,908	1,510	2,000	19,418
Balances - Beginning of the Year	<u>330,601</u>	<u>64,788</u>	<u>-</u>	<u>395,389</u>
Balances - End of the Year	<u>\$ 346,509</u>	<u>\$ 66,298</u>	<u>\$ 2,000</u>	<u>\$ 414,807</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Income (Loss)	\$ 42,707	\$ 3,610	\$ (3,050)	\$ 43,267
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Accounts Receivable	229	-	(1,917)	(1,688)
Due from Governmental Units	(78)	-	-	(78)
Prepaid Expense	-	-	(51,470)	(51,470)
Accounts Payable	(26,950)	(2,231)	4,280	(24,901)
Accrued Liabilities	-	131	-	131
Net Cash Provided (Used) by Operating Activities	<u>\$ 15,908</u>	<u>\$ 1,510</u>	<u>\$ (52,157)</u>	<u>\$ (34,739)</u>

**County of Otsego, Michigan**

**Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
December 31, 2011**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
<b>ASSETS:</b>						
<b>Current Assets:</b>						
Cash and Equivalents	\$ 204,092	\$ 51,338	\$ 13,307	\$ 3,523	\$ 50,021	\$ 322,281
Investments	386,255	-	-	-	-	386,255
Accounts Receivable	-	-	6,021	-	-	6,021
<b>Total Current Assets</b>	<b>590,347</b>	<b>51,338</b>	<b>19,328</b>	<b>3,523</b>	<b>50,021</b>	<b>714,557</b>
<b>Noncurrent Assets:</b>						
Capital Assets (Net of Accumulated Depreciation)	-	-	147,586	-	-	147,586
<b>TOTAL ASSETS</b>	<b>\$ 590,347</b>	<b>\$ 51,338</b>	<b>\$ 166,914</b>	<b>\$ 3,523</b>	<b>\$ 50,021</b>	<b>\$ 862,143</b>
<b>LIABILITIES:</b>						
<b>Current Liabilities:</b>						
Accounts Payable	\$ -	\$ 1,358	\$ 5,539	\$ 51	\$ -	\$ 6,948
Accrued Liabilities	-	-	-	-	10,118	10,118
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>1,358</b>	<b>5,539</b>	<b>51</b>	<b>10,118</b>	<b>17,066</b>
<b>NET ASSETS:</b>						
Invested in Capital Assets	-	-	147,586	-	-	147,586
Unrestricted	590,347	49,980	13,789	3,472	39,903	697,491
<b>TOTAL NET ASSETS</b>	<b>\$ 590,347</b>	<b>\$ 49,980</b>	<b>\$ 161,375</b>	<b>\$ 3,472</b>	<b>\$ 39,903</b>	<b>\$ 845,077</b>

# County of Otsego, Michigan

## Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds For the Year Ended December 31, 2011

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
<b>OPERATING REVENUES:</b>						
Local Sources	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Charges for Services	140,140	17,998	49,620	25,605	2,949	236,312
Other Revenues	-	-	18,257	-	-	18,257
<b>TOTAL OPERATING REVENUES</b>	<b>140,140</b>	<b>22,998</b>	<b>67,877</b>	<b>25,605</b>	<b>2,949</b>	<b>259,569</b>
<b>OPERATING EXPENSES:</b>						
Salaries, Wages, and Fringe Benefits	7,873	-	-	-	-	7,873
Contractual Services	1,913	19,592	14,766	1,232	320	37,823
Materials and Supplies	3,928	961	-	17,897	1,075	23,861
Depreciation	-	-	12,300	-	-	12,300
Other Expenses	1,762	9,048	55,786	1,311	1,586	69,493
<b>TOTAL OPERATING EXPENSES</b>	<b>15,476</b>	<b>29,601</b>	<b>82,852</b>	<b>20,440</b>	<b>2,981</b>	<b>151,350</b>
<b>OPERATING INCOME (LOSS)</b>	<b>124,664</b>	<b>(6,603)</b>	<b>(14,975)</b>	<b>5,165</b>	<b>(32)</b>	<b>108,219</b>
<b>NON OPERATING REVENUES (EXPENSES):</b>						
Interest Earnings	7,522	-	-	-	7,300	14,822
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>132,186</b>	<b>(6,603)</b>	<b>(14,975)</b>	<b>5,165</b>	<b>7,268</b>	<b>123,041</b>
Operating Transfers In	-	17,000	-	-	-	17,000
Changes in Net Assets	132,186	10,397	(14,975)	5,165	7,268	140,041
Net Assets - January 1, 2011	458,161	39,583	176,350	(1,693)	32,635	705,036
Net Assets - December 31, 2011	<u>\$ 590,347</u>	<u>\$ 49,980</u>	<u>\$ 161,375</u>	<u>\$ 3,472</u>	<u>\$ 39,903</u>	<u>\$ 845,077</u>

# County of Otsego, Michigan

## Combining Statement of Cash Flows Nonmajor Enterprise Funds For the Year Ended December 31, 2011

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from Customers	\$ 140,140	\$ 22,998	\$ 61,856	\$ 25,605	\$ 13,067	\$ 263,666
Payments to Suppliers	(16,254)	(29,571)	(65,013)	(22,548)	(2,981)	(136,367)
Net Cash Provided (Used) by Operating Activities	<u>123,886</u>	<u>(6,573)</u>	<u>(3,157)</u>	<u>3,057</u>	<u>10,086</u>	<u>127,299</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Operating Transfers In	-	17,000	-	-	-	17,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>-</u>	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Net Sale or (Purchase) of Investments	(281,255)	-	-	-	-	(281,255)
Interest Earnings	7,522	-	-	-	7,300	14,822
Net Cash Provided (Used) by Investing Activities	<u>(273,733)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,300</u>	<u>(266,433)</u>
Net Increase (Decrease) in Cash and Equivalents	(149,847)	10,427	(3,157)	3,057	17,386	(122,134)
Balances - Beginning 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>
Balances - End of the Year	<u>\$ 204,092</u>	<u>\$ 51,338</u>	<u>\$ 13,307</u>	<u>\$ 3,523</u>	<u>\$ 50,021</u>	<u>\$ 322,281</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>						
Operating Income (Loss)	\$ 124,664	\$ (6,603)	\$ (14,975)	\$ 5,165	\$ (32)	\$ 108,219
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	-	-	12,300	-	-	12,300
Change in Assets and Liabilities:						
Accounts Receivable	-	-	(6,021)	-	-	(6,021)
Due to Other Funds	-	-	-	(2,000)	-	(2,000)
Accrued Liabilities	(778)	-	-	-	10,118	9,340
Accounts Payable	-	30	5,539	(108)	-	5,461
Net Cash Provided (Used) by Operating Activities	<u>\$ 123,886</u>	<u>\$ (6,573)</u>	<u>\$ (3,157)</u>	<u>\$ 3,057</u>	<u>\$ 10,086</u>	<u>\$ 127,299</u>

## **Reports on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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

ROBERT L. HASKE, CPA  
AMBER N. MACK, CPA, EA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**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, 2011, which collectively comprise the County of Otsego, Michigan's basic financial statements and have issued our report thereon, dated June 11, 2012. Our report includes 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**

Management of the County of Otsego, Michigan, is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Otsego, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Otsego, Michigan'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 11-1.

We also noted certain additional matters that we reported to management of the County of Otsego, Michigan in a separate letter dated June 11, 2012.

The County of Otsego, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County of Otsego, Michigan'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**

June 11, 2012



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

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AMBER N. MACK, CPA, EA

**MEMBER AICPA  
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**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S 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, 2011. 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, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. 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, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 11-2.

### **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 of Otsego, Michigan'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.

The County of Otsego, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County of Otsego, Michigan'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**

June 11, 2012

# County of Otsego, Michigan

## Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through programs from Northeast Michigan Community Service Agency, Inc.			
Nutrition Services Incentive-Title III C1	10.570	N/A	\$ 14,582
Nutrition Services Incentive-Title III C2	10.570	N/A	<u>29,223</u>
Subtotal - NEMCSA			<u>43,805</u>
Pass-through from Michigan Department of Natural Resources			
Schools and Roads Grant	10.665	N/A	<u>3</u>
Subtotal - MDNR			<u>3</u>
Total U.S. Department of Agriculture			<u>43,808</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Pass-through programs from the Michigan State Housing Development Authority:			
Aerospace Diversification Planning Project	14.228	MSC-211003-EDPA	9,750
CDBG	14.228	MSC-2008-0812-HO	113,895
CDBG	14.228	MSC-2009-0812-HOA	<u>224,703</u>
Total U.S. Department of Housing and Urban Development			<u>348,348</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Pass-through programs from the Michigan Department of Human Services:			
Juvenile Accountability Incentive Block Grant - 02/01/10 to 01/31/11	16.523	JABGN-10-20001	999
Juvenile Accountability Incentive Block Grant - 02/01/11 to 01/31/12	16.523	JABGN-11-20001	<u>10,821</u>
Total U.S. Department of Justice			<u>11,820</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through programs from the Michigan Department of Transportation:			
Airport Project - State Administered	20.205	B-26-0036-1708	112,550
Airport Project - State Administered	20.205	E-26-0036-2009	640,486
Airport Project - State Administered	20.205	B-26-0036-1907	62,115
Capital Assistance	20.500	2007-0276-Z5	87,956
Operating Grant - Section 5311	20.509	2007-0276-Z12	<u>301,124</u>
Subtotal - MDOT			<u>1,204,231</u>
Pass-through programs from the Michigan Department of State:			
Motorcycle Safety Bike Purchase	20.612	N/A	3,436
Motorcycle Safety Education	20.612	N/A	<u>2,252</u>
Subtotal - Michigan Department of State			<u>5,688</u>
Total U.S. Department of Transportation			<u>1,209,919</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through programs from the Michigan Department of Human Services:			
Incentive Reimbursement	93.563	N/A	39,720
PA CRP Title IV-D - 10/1/09 to 9/30/12	93.563	CS/PA-10-69002	33,259
FOC CRP Title IV-D - 10/1/09 to 9/30/12	93.563	CS/FOC-10-69001	306,679
PROFC Title IV-E	93.658	PRO-FC-11-69001	<u>6,944</u>
Subtotal - MDHS			<u>386,602</u>
Pass-through programs from the Michigan Office of Services to the Aging:			
Pass-through Northeast Michigan Community Services Agency, Inc., Special Programs for the Aging:			
Title III Part B - Supportive Services and Senior Centers			
Respite	93.044	N/A	2,000
Homemaker	93.044	N/A	12,431
Personal Care	93.044	N/A	10,194
Title III Part C - Nutrition Services			
Congregate Meals	93.045	N/A	34,644
Home Delivered Meals	93.045	N/A	<u>15,668</u>

**Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2011**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: (Continued)</b>			
Title III Part E - National Family Caregiver Support			
Support Group	93.052	N/A	1,800
Respite (Up & Go)	93.052	N/A	140
Respite	93.052	N/A	8,881
Resource Room	93.052	N/A	2,000
Grandparents Kinship	93.052	N/A	900
NFCSP Parkinson Group	93.052	N/A	1,800
NFCSP Kindship (Grandparents)	93.052	N/A	750
Elder Abuse	93.052	N/A	1,300
Savvy Caregiver - Demo Grant	93.052	N/A	17,463
Other Programs	93.052	N/A	5,029
Subtotal - NEMCSA, Inc.			<u>115,000</u>
Total U.S. Department of Health and Human Services			<u>501,602</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-through programs from the Michigan Department of Natural Resources:			
Marine Safety Grant	97.012	N/A	3,750
Subtotal - MDNR			<u>3,750</u>
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
Emergency Management Performance Grants 10/01/10-09/30/11	97.042	N/A	14,324
Pre-Disaster Mitigation Grant	97.047	PDMC-PL-05-MI-2011-009	2,577
2008 State Homeland Security Grant	97.067	N/A	1,047,576
Subtotal - MDSP, EMD			<u>1,064,477</u>
Total U.S. Department of Homeland Security			<u>1,068,227</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 3,183,724</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 Homeland Security which provided the greatest amount of indirect federal funding to the County during 2011.

**NOTE C - FEDERAL REVENUES**

Federal Revenues per Financial Statement:	
Government Funds	\$ 2,794,644
Enterprise Funds:	
Operating	301,124
Capital	<u>87,956</u>
Total Federal Expenditures	<u>\$ 3,183,724</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, 2011, the Federal aid received and expended by the Airport was \$815,151 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, 2011, the Federal aid received and expended by the Road Commission was \$799,499 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.

Section I – Summary of Auditor’s Results

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
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**

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

SIGNIFICANT DEFICIENCIES – NON-COMPLIANCE

**Delinquent In Distributing Tax Revenues**

*Finding 11-1*

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

*Condition:* The disbursement of current tax collections to the respective school systems was not conducted in a timely manner as of December 31, 2011. The disbursement was not performed within the time limit specified by regulation.

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

*Cause:* Unknown.

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

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

Section III – Federal Award Findings and Questioned Costs

*Significant Deficiencies – Noncompliance with Federal Regulations*

**Subrecipient Monitoring**

*Finding 11-2*

*Program Award:* U.S. Department of Homeland Security – Homeland Security Grant Program – CFDA No. 97.067, period ended December 31, 2011, pass-through from the Michigan Department of State Police.

*Criteria:* OMB Circular A-133 requires that a unit of government that passes federal funds to another governmental unit must implement, document and monitor compliance of that organization with the provisions of the OMB circulars and other federal regulations.

*Condition:* Subrecipient monitoring policies have not been implemented and documented for the federal program including monitoring through site visits and assuring regular audits have been performed.

*Effect:* Without adequate review documentation of subrecipient audit reports, single audit compliance reports, and other monitoring procedures, compliance with requirements of OMB Circular A-133 and other regulations cannot be assured.

*Cause:* Audit reports of the subrecipient were not requested or were not available by the participating organization and monitoring is not documented due to insufficient reporting procedures and practices.

*Recommendation:* Program personnel should implement a County subrecipient monitoring policy and implement the appropriate review and documentation procedures to assure compliance with federal regulations.

- Contact Person(s) Responsible for Correction:  
Mike Thompson, Emergency Manager
- Corrective Action Planned  
The County is working towards implementing proper subrecipient monitoring procedures as of June 2012.
- Anticipated Completion Date:  
Immediately

**Section III – Federal Award Findings and Questioned Costs**

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**NONE.**



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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

ROBERT L. HASKE, CPA  
AMBER N. MACK, CPA, EA

**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, 2011, and have issued our report thereon dated June 11, 2012. 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 December 12, 2011, 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 letter about planning matters dated December 12, 2011.

### **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. GASB 54 fund balance accounting policy was 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 \$1,031,000.

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

### ***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 June 11, 2012.

### ***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: Corrected.

**Sportsplex Payroll (Prior Year)**

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

Status: Uncorrected.

**Taxes Receivable and Revenue (Prior Year)**

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

Status: County corrected, EMS and Library uncorrected.

**Accrual Based Accounting (Prior Year)**

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

Status: 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: Corrected.

### **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: Corrected.

#### **Expenses - Homeland Security Grant (Prior Year)**

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.

Status: Corrected.

#### **Trust & Agency (Prior Year)**

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.

Status: Corrected.

#### **Supplies and Repair and Maintenance Accounts (Prior Year)**

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.

Status: Corrected.

#### **Cash (Prior Year)**

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

Status: Uncorrected.

### **DTRF Investment (Prior Year)**

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

Status: Uncorrected.

### **Bank Account Reconciliations (Prior Year)**

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

Status: Uncorrected.

### **EMS Checks**

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

### **Library Timesheets**

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

### **Library Timesheets**

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

### **Form 941 Reporting**

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

### **Trust & Agency Funds**

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

### **Receipts**

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

### **Disbursements**

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

### **Inmate Trust Account**

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

### **Check Signatures**

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

### **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 & Company, PLC**  
**Certified Public Accountants**