

County of Otsego, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2013

COUNTY OF OTSEGO, MICHIGAN

BOARD OF COMMISSIONERS

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Clerk/Register of Deeds

Diann Axford
Treasurer

Matthew Nowicki
Sheriff

Michael A. Rola
Prosecuting Attorney

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the County of Otsego, Michigan, as of and for the year ending December 31, 2013, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Otsego County Road Commission, which is both a component unit and 85 percent, 88 percent, and 71 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. We did not audit the financial statements of the Commission on Aging, which is both a major fund and 5 percent, 7 percent, and 10 percent, respectively, of the assets, fund balance, and revenues of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Road Commission and Commission on Aging, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of 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 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 11, page 60, and pages 61 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Otsego's basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2014, 2014 on our consideration of the County of Otsego's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Otsego's internal control over financial reporting and compliance.



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

June 5, 2014

Management's Discussion and Analysis

As management of the County of Otsego, we offer readers of the county's financial statements this narrative overview and analysis of the financial activities of the county for the fiscal year ended December 31, 2013. 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 *net position* of the County of Otsego exceeded its liabilities at the close of the most recent fiscal year by \$38,314,841. Of this amount, \$16,197,401 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net position was \$27,687,316.
- Business-type activity net position was \$10,627,525.
- Component Units net position was \$20,230,887.

There was an increase and a decrease of \$68,244 and \$635,956 in net position in the Governmental Activities and Business-type Activities, respectively. An increase of \$1,464,944 in net position was realized in the Component Units.

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current Assets	\$ 16,233,330	\$ 15,258,473	\$ 9,181,949	\$ 9,647,114	\$ 25,415,279	\$ 24,905,587
Noncurrent Assets	18,354,766	18,811,220	1,549,576	1,714,627	19,904,342	20,525,847
Total Assets	\$ 34,588,096	\$ 34,069,693	\$ 10,731,525	\$ 11,361,741	\$ 45,319,621	\$ 45,431,434
Current Liabilities	\$ 1,034,122	\$ 2,802,434	\$ 104,000	\$ 98,260	\$ 1,138,122	\$ 2,900,694
Noncurrent Liabilities	3,787,356	3,648,187	-	-	3,787,356	3,648,187
Total Liabilities	4,821,478	6,450,621	104,000	98,260	4,925,478	6,548,881
Deferred Inflow of Resources Taxes Levied for a Subsequent Period	2,079,302	-	-	-	2,079,302	-
Net Position						
Net Investment in Capital Assets	15,888,101	16,097,189	1,549,576	1,714,627	17,437,677	17,811,816
Restricted	4,679,763	5,101,452	-	-	4,679,763	5,101,452
Unrestricted	7,119,452	6,420,431	9,077,949	9,548,854	16,197,401	15,969,285
Total Net Position	\$ 27,687,316	\$ 27,619,072	\$ 10,627,525	\$ 11,263,481	\$ 38,314,841	\$ 38,882,553

The following table shows the activities of the County.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program Revenues						
Charges for Services	\$ 4,036,983	\$ 4,022,478	\$ 1,576,703	\$ 1,117,693	\$ 5,613,686	\$ 5,140,171
Operating Grants and Contributions	3,255,474	2,580,686	903,002	902,110	4,158,476	3,482,796
Capital Grants and Contributions	274,530	-	-	730,050	274,530	730,050
General Revenues						
Property Taxes	7,927,234	7,526,702	285,605	288,752	8,212,839	7,815,454
Investment Earnings	173,343	379,618	23,395	73,111	196,738	452,729
Other Revenue	845,067	713,053	(1,069,216)	693,250	(224,149)	1,406,303
Transfers	175,800	83,000	(175,800)	(83,000)	-	-
Total Revenues	16,688,431	15,305,537	1,543,689	3,721,966	18,232,120	19,027,503
Program Expenses						
Legislative	193,700	187,337	-	-	193,700	187,337
Judicial	1,781,533	1,838,304	-	-	1,781,533	1,838,304
General Government	2,362,984	2,234,780	-	-	2,362,984	2,234,780
Public Safety	3,192,801	3,228,849	-	-	3,192,801	3,228,849
Public Works	1,913,416	1,631,625	-	-	1,913,416	1,631,625
Health and Welfare	2,847,839	2,665,666	-	-	2,847,839	2,665,666
Community & Economic Development	1,981,522	1,117,968	-	-	1,981,522	1,117,968
Recreation and Culture	1,172,350	1,224,093	-	-	1,172,350	1,224,093
Other Expenses	1,043,607	1,527,752	-	-	1,043,607	1,527,752
Interest - Unallocated	130,435	136,758	-	-	130,435	136,758
Delinquent Tax Collection	-	-	139,838	165,221	139,838	165,221
Public Transit	-	-	1,840,469	1,818,466	1,840,469	1,818,466
Nonmajor Enterprise Funds	-	-	199,338	125,942	199,338	125,942
Total Expenses	16,620,187	15,793,132	2,179,645	2,109,629	18,799,832	17,902,761
Changes in Net Position	68,244	(487,595)	(635,956)	1,612,337	(567,712)	1,124,742
Net Position - Beginning	27,619,072	28,106,667	11,263,481	9,651,144	38,882,553	37,757,811
Net Position - Ending	<u>\$ 27,687,316</u>	<u>\$ 27,619,072</u>	<u>\$ 10,627,525</u>	<u>\$ 11,263,481</u>	<u>\$ 38,314,841</u>	<u>\$ 38,882,553</u>

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the governmental and business-type activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The County's net position at December 31, 2013 totaled \$38,314,841, a decrease of \$567,712 from the prior year.

The largest portion of the County's net position, \$17,437,677 (46 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, furniture and fixtures, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position, 4,679,763 (12 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$16,197,401 (42 percent) represents *unrestricted net position* that may be used to meet the County's ongoing obligations to citizens and creditors.

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

Governmental Activities – Governmental activities increased the County's net position by \$68,244. This is primarily due to an increase in revenues of \$1,382,894, offset by an increase in expenditures of \$827,055.

Business-Type Activities – Business-type activities decreased the County's net position by \$635,956. The decrease in net position was more in the current year, due to decreased revenue of \$2,178,277. Expenditures increased by \$70,016.

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, 2013, the County's governmental funds reported combined ending fund balance of \$10,725,292, an increase of \$651,333 when compared with the prior year. This is primarily attributable to an increase in federal and local sources. Of the fund balance amount, \$1,966,871 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 \$1,966,871, with a total fund balance of \$3,544,237. The fund balance of the County's General Fund increased by \$487,885 during the current fiscal year. This is primarily attributable to an increase in property tax values.

The County's Housing Commission had an ending fund balance of \$184,863, an increase of \$83,047 from the prior year.

The County's Revenue Sharing Reserve Fund had an ending fund balance of \$621,458. 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 \$477,235 represents the allowable expenditure amount for 2013, offset by interest income.

The County's M-TEC Fund had an ending fund balance of \$0 which decreased \$3,738 from the prior year. The decrease was the result of effectively managing expenditure levels.

The County's Commission on Aging Fund had an ending fund balance of \$800,569 which increased \$5,395 from the prior year. The increase was the result of effectively managing expenditure levels.

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

Unrestricted net position of the enterprise funds at year end amounted to \$9,077,949. The enterprise funds had a decrease in net position for the year of \$635,956, due primarily to a decrease in revenue and an increase in expenses.

Unrestricted net position of the internal service funds at year end amounted to \$798,240. The internal service funds had a decrease in net position for the year of \$509.

Budgetary Highlights

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

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

Overall during the year, General Fund revenues (revenue and other financing sources) were in line with the budgetary estimates and came in higher than anticipated by \$433,864 or 6 percent. Expenditures (expenditures and other financing uses) were below the budgetary estimates. Overall expenditures were under budget by \$474,678 or 7 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 \$54,963 or 6 percent.

Revenue Sharing Reserve Fund – The Revenue Sharing Reserve Fund had a favorable variance between the final amended budget and transfers out by \$471.

M-TEC – The M-TEC fund had a favorable variance between final amended budget and actual expenditures of \$1,258,088.

Commission on Aging – The Commission on Aging fund had a favorable variance between final amended budget and actual expenditures of \$140,602.

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, 2013, amounted to \$17,909,027 (net of accumulated depreciation) for its governmental activities. This investment in capital assets includes land and improvements, buildings and improvements, furniture and fixtures, machinery and equipment, vehicular equipment, and infrastructure. The total decrease in the County's investment in capital assets for the current fiscal year was 4 percent. Major capital asset events during the current fiscal year included the following:

- \$25,289 for animal control vehicle
- \$42,054 for law enforcement vehicles
- \$489,620 for airport
- \$190,717 for EMS vehicle and equipment
- \$495,106 for building and grounds buildings
- \$1,529,674 in depreciation expense on County assets
- \$19,018 for University Center

- \$9,800 for Groen Nature Preserve
- \$9,899 for Sportsplex
- \$32,813 for Library

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

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County had total bonded debt outstanding of \$2,020,926. The County's total debt decreased by \$245,000, (11 percent) during the current fiscal year.

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

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's 2014 budget:

- Property tax revenues are projected to increase by approximately 2 percent in 2014, mainly due to a slight increase in property tax values.

Highlights of the 2014 budget are as follows:

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

Contacting the County's Management

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

Basic Financial Statements

Statement of Net Position December 31, 2013

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Cash and Equivalents	\$ 9,408,163	\$ 2,238,998	\$ 11,647,161	\$ 1,746,812
Investments	1,791,397	3,981,231	5,772,628	106,046
Receivables:				
Taxes	2,101,524	1,455,037	3,556,561	1,408,598
Accounts	88,269	1,212,402	1,300,671	1,541,275
Interest	-	168,475	168,475	-
Loans	2,354,290	-	2,354,290	-
Due from Governmental Units	347,437	125,806	473,243	-
Inventories	51,523	-	51,523	566,779
Prepaid Items	90,727	-	90,727	-
Advance to Component Unit	445,739	-	445,739	-
Capital Assets Not Depreciated	1,829,730	99,998	1,929,728	170,157
Capital Assets (Net of Accumulated Depreciation)	16,079,297	1,449,578	17,528,875	25,750,203
TOTAL ASSETS	\$ 34,588,096	\$ 10,731,525	\$ 45,319,621	\$ 31,289,870
LIABILITIES:				
Accounts Payable	\$ 397,066	\$ 41,931	\$ 438,997	\$ 179,748
Accrued Liabilities	151,254	34,380	185,634	199,722
Other Liabilities	-	27,689	27,689	-
Advance from Government Units	-	-	-	151,840
Due to Governmental Units	28,139	-	28,139	40,000
Unearned Revenue	145,486	-	145,486	-
Interest Payable	18,993	-	18,993	-
Advance from Primary Government	-	-	-	445,739
Vested Employee Benefits - Due in more than one year	169,306	-	169,306	75,843
Bonds Payable - Due within one year	245,000	-	245,000	30,000
Bonds Payable - Due in more than one year	1,295,000	-	1,295,000	795,000
(OPEB) Liabilities - Due in more than one year	1,890,308	-	1,890,308	7,231,810
Note Payable - Due within one year	48,184	-	48,184	-
Note Payable - Due in more than one year	432,742	-	432,742	-
Capital Lease Payable - Due within one year	-	-	-	161,113
Capital Lease Payable - Due in more than one year	-	-	-	327,103
TOTAL LIABILITIES	4,821,478	104,000	4,925,478	9,637,918
DEFERRED INFLOWS OF RESOURCES:				
Taxes Levied for a Subsequent Period	2,079,302	-	2,079,302	1,421,065
NET POSITION:				
Net Investment in Capital Assets	15,888,101	1,549,576	17,437,677	24,607,144
Restricted for Debt Service	163,812	-	163,812	-
Restricted for Ambulance and Emergency Services	-	-	-	376,206
Restricted for Sportsplex	-	-	-	152,741
Restricted for University Center	-	-	-	859,295
Restricted for Housing Projects	2,539,153	-	2,539,153	-
Restricted for Revenue Sharing	621,458	-	621,458	-
Restricted for COA	800,569	-	800,569	-
Restricted for Library	554,771	-	554,771	-
Unrestricted	7,119,452	9,077,949	16,197,401	(5,764,499)
TOTAL NET POSITION	\$ 27,687,316	\$ 10,627,525	\$ 38,314,841	\$ 20,230,887

County of Otsego, Michigan

Statement of Activities For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Totals	
Primary Government:								
Governmental Activities:								
Legislative	\$ 193,700	\$ -	\$ -	\$ -	\$ (193,700)	\$ -	\$ (193,700)	\$ -
Judicial	1,781,533	693,881	753,330	-	(334,322)	-	(334,322)	-
General Government	2,362,984	237,321	378,265	-	(1,747,398)	-	(1,747,398)	-
Public Safety	3,192,802	1,236,066	296,799	-	(1,659,937)	-	(1,659,937)	-
Public Works	1,913,415	1,054,447	25,231	274,530	(559,207)	-	(559,207)	-
Health and Welfare	2,847,839	183,076	619,872	-	(2,044,891)	-	(2,044,891)	-
Community/Economic Development	1,981,522	212,851	844,815	-	(923,856)	-	(923,856)	-
Recreation and Culture	1,172,350	419,341	337,162	-	(415,847)	-	(415,847)	-
Other	1,043,607	-	-	-	(1,043,607)	-	(1,043,607)	-
Interest - Unallocated	130,435	-	-	-	(130,435)	-	(130,435)	-
Total Governmental Activities	<u>16,620,187</u>	<u>4,036,983</u>	<u>3,255,474</u>	<u>274,530</u>	<u>(9,053,200)</u>	<u>-</u>	<u>(9,053,200)</u>	<u>-</u>
Business-type Activities:								
Delinquent Tax Collection	139,838	766,627	-	-	-	626,789	626,789	-
Public Transit	1,840,469	380,904	903,002	-	-	(556,563)	(556,563)	-
Non-Major Enterprise Funds	199,338	429,172	-	-	-	229,834	229,834	-
Total Business-type Activities	<u>2,179,645</u>	<u>1,576,703</u>	<u>903,002</u>	<u>-</u>	<u>-</u>	<u>300,060</u>	<u>300,060</u>	<u>-</u>
Total Primary Government	<u>\$ 18,799,832</u>	<u>\$ 5,613,686</u>	<u>\$ 4,158,476</u>	<u>\$ 274,530</u>	<u>(9,053,200)</u>	<u>300,060</u>	<u>(8,753,140)</u>	<u>-</u>
Component Units:								
Road Commission	\$ 8,275,224	\$ 1,472,289	\$ 8,278,698	\$ -	-	-	-	1,475,763
Ambulance	2,098,387	1,583,633	13,228	-	-	-	-	(501,526)
University Center	973,010	302,730	-	-	-	-	-	(670,280)
Sportsplex	942,962	631,482	-	-	-	-	-	(311,480)
Total Component Units	<u>12,289,583</u>	<u>3,990,134</u>	<u>8,291,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,523)</u>
Total	<u>\$ 31,089,415</u>	<u>\$ 9,603,820</u>	<u>\$ 12,450,402</u>	<u>\$ 274,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Revenues and Transfers:								
Taxes	-	-	-	-	7,927,234	285,605	8,212,839	1,379,265
Investment Earnings	-	-	-	-	173,343	23,395	196,738	6,311
Transfers	-	-	-	-	175,800	(175,800)	-	-
Other	-	-	-	-	845,067	(1,069,216)	(224,149)	86,891
Total General Revenues and Transfers	-	-	-	-	<u>9,121,444</u>	<u>(936,016)</u>	<u>8,185,428</u>	<u>1,472,467</u>
Changes in Net Position	-	-	-	-	68,244	(635,956)	(567,712)	1,464,944
Net Position - Beginning	-	-	-	-	<u>27,619,072</u>	<u>11,263,481</u>	<u>38,882,553</u>	<u>18,765,943</u>
Net Position - Ending	-	-	-	-	<u>\$ 27,687,316</u>	<u>\$ 10,627,525</u>	<u>\$ 38,314,841</u>	<u>\$ 20,230,887</u>

See accompanying notes to financial statements.

County of Otsego, Michigan

**Balance Sheet
Governmental Funds
December 31, 2013**

	General	Housing Commission	Revenue Sharing Reserve	M-TEC	Commission on Aging 9/30/2013	Nonmajor Governmental	Total Governmental Funds
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 3,151,697	\$ 185,820	\$ 621,458	\$ 383	\$ 818,361	\$ 3,875,510	\$ 8,653,229
Investments - Unrestricted	481,599	-	-	-	-	1,309,798	1,791,397
Receivables:							
Taxes	22,222	-	-	753,868	-	1,325,434	2,101,524
Accounts	13,874	-	-	-	12,427	55,860	82,161
Loans	-	2,354,290	-	-	-	-	2,354,290
Due from Other Funds	30,000	-	-	-	-	97,000	127,000
Due from Governmental Units	201,333	-	-	-	-	145,468	346,801
Inventories	20,910	-	-	-	1,911	28,377	51,198
Prepaid Items	6,306	-	-	-	-	13,254	19,560
Long-Term Advances to Other Funds - Component Units	-	-	-	-	-	445,739	445,739
TOTAL ASSETS	\$ 3,927,941	\$ 2,540,110	\$ 621,458	\$ 754,251	\$ 832,699	\$ 7,296,440	\$ 15,972,899
LIABILITIES:							
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,000	\$ 127,000
Accounts Payable	156,953	268	-	383	-	207,979	365,583
Due to Other Governmental Units	-	-	-	-	-	28,139	28,139
Accrued Liabilities	81,265	689	-	-	32,130	33,723	147,807
Unearned Revenue	145,486	2,354,290	-	-	-	-	2,499,776
TOTAL LIABILITIES	383,704	2,355,247	-	383	32,130	396,841	3,168,305
DEFERRED INFLOWS OF RESOURCES:							
Taxes Levied for a Subsequent Period	-	-	-	753,868	-	1,325,434	2,079,302
FUND BALANCES:							
Nonspendable	27,216	-	-	-	-	487,370	514,586
Restricted for Schneider Trust	-	-	-	-	-	-	-
Restricted for COA	-	-	-	-	800,569	-	800,569
Restricted for Debt Service	-	-	-	-	-	163,812	163,812
Restricted for Housing Projects	-	184,863	-	-	-	-	184,863
Restricted for Revenue Sharing	-	-	621,458	-	-	-	621,458
Restricted for Library	-	-	-	-	-	554,771	554,771
Committed	-	-	-	-	-	1,840,160	1,840,160
Assigned	1,550,150	-	-	-	-	2,528,052	4,078,202
Unassigned	1,966,871	-	-	-	-	-	1,966,871
TOTAL FUND BALANCES	3,544,237	184,863	621,458	-	800,569	5,574,165	10,725,292
TOTAL LIABILITIES, INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,927,941	\$ 2,540,110	\$ 621,458	\$ 754,251	\$ 832,699	\$ 7,296,440	
Reconciliation to amounts reported for governmental activities in the statement of net position:							
Capital assets used by governmental activities							17,909,027
Long term notes payable for governmental activities							(2,020,926)
Vested employee benefits and OPEB liabilities							(2,059,614)
Deferred revenue recognized as current revenue							2,354,290
Internal service funds							798,240
Accrued interest expense							(18,993)
Net position of governmental activities							\$ 27,687,316

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended December 31, 2013**

	General	Housing Commission	Revenue Sharing Reserve	M-TEC	Commission on Aging 9/30/2013	Nonmajor Governmental	Total Governmental Funds
REVENUES:							
Taxes	\$ 4,698,675	\$ -	\$ -	\$ 745,723	\$ 1,142,697	\$ 1,340,139	\$ 7,927,234
Licenses and Permits	37,177	-	-	-	-	-	37,177
Federal Sources	61,641	718,138	-	-	148,063	793,461	1,721,303
State Sources	823,788	-	-	-	86,814	286,531	1,197,133
Local Sources	24,675	126,677	-	-	147,778	439,489	738,619
Charges for Services	928,236	-	-	-	115,667	2,320,213	3,364,116
Fines and Forfeits	12,304	-	-	-	-	166,174	178,478
Interest and Rentals	111,306	87	4,846	-	1,943	236,539	354,721
Other Revenue	658,462	67,325	-	4,663	26,531	296,364	1,053,345
TOTAL REVENUES	7,356,264	912,227	4,846	750,386	1,669,493	5,878,910	16,572,126
EXPENDITURES:							
Legislative	193,700	-	-	-	-	-	193,700
Judicial	1,332,941	-	-	-	-	446,569	1,779,510
General Government	1,767,832	-	-	-	-	288,485	2,056,317
Public Safety	1,805,424	-	-	-	-	1,355,703	3,161,127
Public Works	4,250	-	-	-	-	1,270,356	1,274,606
Health and Welfare	573,063	-	-	-	1,664,098	584,879	2,822,040
Community/Economic Development	138,674	828,419	-	754,124	-	-	1,721,217
Recreation and Culture	-	-	-	-	-	1,152,624	1,152,624
Other Expenditures	403,574	-	-	-	-	-	403,574
Capital Outlay	-	-	-	-	-	1,033,595	1,033,595
Debt Service	-	-	-	-	-	375,283	375,283
TOTAL EXPENDITURES	6,219,458	828,419	-	754,124	1,664,098	6,507,494	15,973,593
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,136,806	83,808	4,846	(3,738)	5,395	(628,584)	598,533
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	719,381	-	-	-	-	1,491,205	2,210,586
Operating Transfers Out	(1,368,302)	(761)	(482,081)	-	-	(306,642)	(2,157,786)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	487,885	83,047	(477,235)	(3,738)	5,395	555,979	651,333
FUND BALANCES, JANUARY 1	3,056,352	101,816	1,098,693	3,738	795,174	5,018,186	10,073,959
FUND BALANCES, DECEMBER 31	\$ 3,544,237	\$ 184,863	\$ 621,458	\$ -	\$ 800,569	\$ 5,574,165	\$ 10,725,292

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2013

Net changes in fund balances - total governmental funds	\$ 651,333
The change in net position 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 depreciation and loss on disposal, (\$1,403,314) exceeded capital outlay, \$949,225.	
	(454,089)
Revenues earned but not available for current resources are not reported in the funds.	
Housing Commission - loan increase	64,014
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Principal repayments:	
Bonds Payable	245,000
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:	
Vested employee benefits	(64,214)
Post employment benefit liability	(373,139)
Accrued interest expense	(152)
Internal service fund activity	<u>(509)</u>
Changes in net position of governmental activities	<u>\$ 68,244</u>

**Statement of Net Position
Proprietary Funds
December 31, 2013**

	Business-type Activities - Enterprise Funds				Governmental
	Major			Total Enterprise Funds	Activities
	Delinquent Tax Fund	Bus System 9/30/2013	Nonmajor Enterprise Funds		Internal Service Funds
ASSETS:					
Cash and Equivalents	\$ 1,524,253	\$ 177,373	\$ 537,372	\$ 2,238,998	\$ 754,934
Investments	3,387,212	-	594,019	3,981,231	-
Taxes Receivable	1,455,037	-	-	1,455,037	-
Interest Receivable	168,475	-	-	168,475	-
Accounts Receivable	1,199,184	9,336	3,882	1,212,402	6,108
Due from Governmental Units	-	125,806	-	125,806	636
Prepaid Items	-	-	-	-	71,167
Inventory	-	-	-	-	325
Capital Assets (Not Depreciated)	-	99,998	-	99,998	-
Capital Assets (Net of Accumulated Depreciation)	-	1,326,592	122,986	1,449,578	-
TOTAL ASSETS	\$ 7,734,161	\$ 1,739,105	\$ 1,258,259	\$ 10,731,525	\$ 833,170
LIABILITIES:					
Accounts Payable	\$ 2,148	\$ 25,362	\$ 14,421	\$ 41,931	\$ 31,483
Accrued Liabilities	8,640	24,134	1,606	34,380	3,447
Other Liabilities	-	27,689	-	27,689	-
TOTAL LIABILITIES	10,788	77,185	16,027	104,000	34,930
NET POSITION:					
Net Investment in Capital Assets	-	1,426,590	122,986	1,549,576	-
Unrestricted	7,723,373	235,330	1,119,246	9,077,949	798,240
TOTAL NET POSITION	\$ 7,723,373	\$ 1,661,920	\$ 1,242,232	\$ 10,627,525	\$ 798,240

**Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Funds
For the Year Ended December 31, 2013**

	Business-type Activities - Enterprise Funds				Governmental
	Major			Total Enterprise Funds	Internal Service Funds
	Delinquent Tax Fund	Bus System 9/30/2013	Nonmajor Enterprise Funds		
OPERATING REVENUES:					
Local Sources	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ -
Charges for Services	126,324	380,904	429,172	936,400	1,752,809
Interest on Delinquent Taxes	640,303	-	-	640,303	-
Other Revenues	24,228	-	-	24,228	-
TOTAL REVENUES	790,855	380,904	434,172	1,605,931	1,752,809
OPERATING EXPENSES:					
Salaries, Wages, and Fringe Benefits	42,283	1,226,159	42,112	1,310,554	1,398,889
Contractual Services	87,087	-	83	87,170	230,553
Materials and Supplies	2,297	-	55,006	57,303	7,092
Equipment Repair and Maintenance	-	-	-	-	27,834
Utilities	-	-	-	-	203,577
Depreciation	-	152,751	12,300	165,051	-
Other Expenses	8,171	461,559	89,837	559,567	8,633
TOTAL EXPENSES	139,838	1,840,469	199,338	2,179,645	1,876,578
OPERATING INCOME (LOSS)	651,017	(1,459,565)	234,834	(573,714)	(123,769)
NON-OPERATING REVENUES (EXPENSES):					
State Operating Grants	-	638,575	-	638,575	-
Federal Operating Grants	-	264,427	-	264,427	-
Interest Earned on Investments	-	-	23,395	23,395	260
Property Taxes Levied	-	285,605	-	285,605	-
Other	(1,138,762)	40,318	-	(1,098,444)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,138,762)	1,228,925	23,395	113,558	260
INCOME (LOSS) BEFORE INTERFUND TRANSFERS	(487,745)	(230,640)	258,229	(460,156)	(123,509)
INTERFUND TRANSFERS:					
Operating Transfers In	-	-	17,000	17,000	123,000
Operating Transfers Out	(186,000)	-	(6,800)	(192,800)	-
CHANGES IN NET POSITION	(673,745)	(230,640)	268,429	(635,956)	(509)
NET POSITION, JANUARY 1	8,397,118	1,892,560	973,803	11,263,481	798,749
NET POSITION, DECEMBER 31	\$ 7,723,373	\$ 1,661,920	\$ 1,242,232	\$ 10,627,525	\$ 798,240

County of Otsego, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds				Governmental
	Major				Activities
	Delinquent Tax Fund	Bus System 9/30/2013	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ (1,003,632)	\$ 380,904	\$ 455,258	\$ (167,470)	\$ 1,730,639
Interest on Delinquent Taxes	704,680	-	-	704,680	-
Net Delinquent Taxes Collected (Purchased)	1,489,512	-	-	1,489,512	-
Payments to Suppliers	(112,680)	(301,538)	(177,110)	(591,328)	(1,508,708)
Payments to Employees for Services and Benefits	(35,307)	(1,222,493)	-	(1,257,800)	(378,634)
Net Cash Provided (Used) by Operating Activities	<u>1,042,573</u>	<u>(1,143,127)</u>	<u>278,148</u>	<u>177,594</u>	<u>(156,703)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
State Grants	-	638,575	-	638,575	-
Federal Grants	-	264,427	-	264,427	-
Property Tax	-	285,605	-	285,605	-
Other	(1,138,762)	40,318	-	(1,098,444)	-
Operating Transfers In	-	-	17,000	17,000	123,000
Operating Transfers Out	(186,000)	-	(6,800)	(192,800)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>(1,324,762)</u>	<u>1,228,925</u>	<u>10,200</u>	<u>(85,637)</u>	<u>123,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net Sale or (Purchase) of Investments	22,616	-	(295,137)	(272,521)	465,573
Interest Earnings	-	-	23,395	23,395	260
Net Cash Provided (Used) by Investing Activities	<u>22,616</u>	<u>-</u>	<u>(271,742)</u>	<u>(249,126)</u>	<u>465,833</u>
Net Increase (Decrease) in Cash and Equivalents	(259,573)	85,798	16,606	(157,169)	432,130
Balances - Beginning of the Year	<u>1,783,826</u>	<u>91,575</u>	<u>520,766</u>	<u>2,396,167</u>	<u>322,804</u>
Balances - End of the Year	<u>\$ 1,524,253</u>	<u>\$ 177,373</u>	<u>\$ 537,372</u>	<u>\$ 2,238,998</u>	<u>\$ 754,934</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 651,017	\$ (1,459,565)	\$ 234,834	\$ (573,714)	\$ (123,769)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	152,751	12,300	165,051	-
Change in Assets and Liabilities:					
Taxes Receivable	1,489,512	-	-	1,489,512	-
Interest Receivable	64,377	-	-	64,377	-
Accounts Receivable	(1,199,184)	159,726	21,086	(1,018,372)	(1,718)
Due from Other Funds	-	-	-	-	-
Due from Other Governmental Units	45,000	-	-	45,000	64
Prepaid Items	-	-	-	-	(20,516)
Accounts Payable	(15,125)	295	9,985	(4,845)	(11,219)
Accrued Liabilities	6,976	3,666	(57)	10,585	455
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,042,573</u>	<u>\$ (1,143,127)</u>	<u>\$ 278,148</u>	<u>\$ 177,594</u>	<u>\$ (156,703)</u>

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	<u>Agency Funds</u>
ASSETS:	
Cash and Equivalents	<u>\$ 1,113,856</u>
 TOTAL ASSETS	 <u><u>\$ 1,113,856</u></u>
 LIABILITIES:	
Undistributed Tax Collections	\$ 640,012
Bonds, Restitutions and Payables to Others	<u>473,844</u>
 TOTAL LIABILITIES	 <u><u>\$ 1,113,856</u></u>

Component Units

County of Otsego, Michigan

Statement of Net Position Component Units December 31, 2013

	Road Commission	Ambulance Corporation	University Center	Sportsplex	Totals
ASSETS:					
Cash and Equivalents	\$ 526,172	\$ 205,168	\$ 936,739	\$ 78,733	\$ 1,746,812
Investments	-	41,046	-	65,000	106,046
Receivables:					
Taxes	-	466,500	649,488	292,610	1,408,598
Accounts	831,470	648,000	23,305	38,500	1,541,275
Inventories	540,495	-	-	26,284	566,779
Capital Assets (Not Depreciated)	170,157	-	-	-	170,157
Capital Assets (Net of Accumulated Depreciation)	24,446,503	1,084,731	218,969	-	25,750,203
TOTAL ASSETS	\$ 26,514,797	\$ 2,445,445	\$ 1,828,501	\$ 501,127	\$ 31,289,870
LIABILITIES:					
Accounts Payable	\$ 93,714	\$ 27,409	\$ 49,782	\$ 8,843	\$ 179,748
Accrued Liabilities	69,429	44,860	38,500	46,933	199,722
Due to Governmental Units	40,000	-	-	-	40,000
Advance from Government Units	151,840	-	-	-	151,840
Capital Lease Payable - Due within one year	151,727	9,386	-	-	161,113
Capital Lease Payable - Due in more than one year	308,915	18,188	-	-	327,103
Bonds Payable - Due within one year	30,000	-	-	-	30,000
Bonds Payable - Due in more than one year	795,000	-	-	-	795,000
Advance from Primary Government	-	445,739	-	-	445,739
(OPEB) Liabilities - Due in more than one year	7,231,810	-	-	-	7,231,810
Vested Employee Benefits - Due in more than one year	75,843	-	-	-	75,843
TOTAL LIABILITIES	8,948,278	545,582	88,282	55,776	9,637,918
DEFERRED INFLOWS OF RESOURCES:					
Taxes Levied for a Subsequent Period	-	466,500	661,955	292,610	1,421,065
NET POSITION:					
Net Investment in Capital Assets	23,331,018	1,057,157	218,969	-	24,607,144
Restricted for Ambulance and Emergency Services	-	376,206	-	-	376,206
Restricted for Sportsplex	-	-	-	152,741	152,741
Restricted for University Center	-	-	859,295	-	859,295
Unrestricted	(5,764,499)	-	-	-	(5,764,499)
TOTAL NET POSITION	\$ 17,566,519	\$ 1,433,363	\$ 1,078,264	\$ 152,741	\$ 20,230,887

County of Otsego, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Road Commission	Ambulance Corporation	University Center	Sportsplex	Total
Road Commission:								
Public Works	\$ 8,275,224	\$ 1,472,289	\$ 8,278,698	\$ 1,475,763	\$ -	\$ -	\$ -	\$ 1,475,763
Ambulance Corporation:								
Health and Welfare	2,098,387	1,583,633	13,228	-	(501,526)	-	-	(501,526)
University Center:								
Recreation and Culture	973,010	302,730	-	-	-	(670,280)	-	(670,280)
Sportsplex:								
Recreation and Culture	942,962	631,482	-	-	-	-	(311,480)	(311,480)
Total Component Units	<u>\$ 12,289,583</u>	<u>\$ 3,990,134</u>	<u>\$ 8,291,926</u>	<u>1,475,763</u>	<u>(501,526)</u>	<u>(670,280)</u>	<u>(311,480)</u>	<u>(7,523)</u>
General Revenues:								
Property Tax				-	457,169	636,428	285,668	1,379,265
Investment Earnings				2,221	1,193	1,250	1,647	6,311
Other				16,334	27,256	41,498	1,803	86,891
Total General Revenues				<u>18,555</u>	<u>485,618</u>	<u>679,176</u>	<u>289,118</u>	<u>1,472,467</u>
Changes in Net Position				1,494,318	(15,908)	8,896	(22,362)	1,464,944
Net Position - Beginning				16,072,201	1,449,271	1,069,368	175,103	18,765,943
Net Position - Ending				<u>\$ 17,566,519</u>	<u>\$ 1,433,363</u>	<u>\$ 1,078,264</u>	<u>\$ 152,741</u>	<u>\$ 20,230,887</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A – Reporting Entity:

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

Blended Component Units

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Discretely Presented Component Units

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Administrative Offices

Otsego County Bus System
1254 Energy Drive
Gaylord, Michigan 49735

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

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, Michigan 49735

Otsego County University Center
80 Livingston Boulevard
Gaylord, Michigan 49735

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Northwest Michigan Community Health Agency – Northwest Michigan Community Health Agency provides health service for Otsego County. The Counties of Otsego, Antrim, Emmet, and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the records of Charlevoix County. The funding formula approved by the member Counties is based pro rata on each unit’s population and equalized valuation to the district’s total population and valuation. Member Counties’ percentages of the net operation budget for the year 2013 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 \$174,096.

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 \$745,340 for which Otsego appropriated \$754,124 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 2013 local match for Otsego County was \$117,504.

Fiscal Year End Other Than December 31, 2013

The financial information presented in this report is for the year ended December 31, 2013, 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, 2013
Bus System	Enterprise Fund	September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B – Government-Wide and Fund Financial Statements:

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable – Current or Property Taxes

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

Although the County of Otsego 2012 ad valorem tax is levied and collectible on December 1, 2012 and the 2013 ad valorem tax is levied and collectible on July 1, 2013, 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 2012 taxable valuation of Otsego County amounted to \$1,155,363,908 on which ad valorem taxes of .30000 mills for Animal Control, 1.0000 mill for Commission on Aging, .1875 mills for County Parks, .2500 for the Bus System, .4000 mills for Library, .4000 for Ambulance, .6464 for M-TEC, .5569 for the University Center, and .2500 for Sportsplex Operating. These amounts are recognized in the respective special revenue fund, debt service fund, and component unit financial statements as revenue.

The July 1, 2013 taxable valuation of the County of Otsego totaled \$1,164,891,144 on which ad valorem taxes levied consisted of 4.6502 mills for the General Fund. This amount is recognized as revenue in the General Fund.

The taxes receivable are recorded in the financial statements with an offsetting credit to taxes levied for a subsequent period based on the 2014 taxable valuation. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2013 and accordingly, do not reflect taxes receivable and deferred revenue. Tax receivables are recorded in the General Fund for the summer taxes not collected at year end. The corresponding revenue is recorded as tax revenue.

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

The County reports the following major governmental funds:

General Fund

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

Housing Commission

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Sharing Reserve Fund

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

M-TEC

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

Commission on Aging

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

The County reports the following major proprietary funds:

Delinquent Tax Fund

This Fund accounts for the collection of delinquent taxes.

Bus System

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

Additionally, the County reports the following fund types:

Special Revenue Funds

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

Debt Service Funds

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

Capital Project Funds

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

Internal Service Funds

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency Funds

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

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

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

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$20,910 at December 31, 2013.

Commission on Aging – \$1,911 of inventory was on hand at September 30, 2013.

Airport – The inventory at the airport consists of fuel on hand based on average cost with a value of \$28,377 at December 31, 2013.

Inventories – Component Units

Road Commission – Inventories amounting to \$540,495 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

Sportsplex – Inventory consist of items in the Pro Shop with a value of \$26,284.

Accounts Receivable – Component Unit

Ambulance – The accounts receivable balance is net of allowance for doubtful accounts of \$1,314,000.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has property taxes that qualify for reporting in this category.

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 within the next year. The County has \$514,586 in Nonspendable fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The County has \$2,325,473 in Restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County. These amounts cannot be used for any other purpose unless the County removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The County has \$1,840,160 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 \$4,078,202.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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

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

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	\$ 9,408,163	\$ 2,238,998	\$ 11,647,161	\$ 1,113,856	\$ 1,746,812
Investments Unrestricted	<u>1,791,397</u>	<u>3,981,231</u>	<u>5,772,628</u>	-	<u>106,046</u>
Total	<u>\$ 11,199,560</u>	<u>\$ 6,220,229</u>	<u>\$ 17,419,789</u>	<u>\$ 1,113,856</u>	<u>\$ 1,852,858</u>

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 11,632,121	\$ 1,113,856	\$ 1,746,612
Petty Cash and Cash on Hand	<u>15,040</u>	-	<u>200</u>
Total	<u>\$ 11,647,161</u>	<u>\$ 1,113,856</u>	<u>\$ 1,746,812</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>	<u>Rating</u>
Investments:						
Money Markets	\$ 500,729	\$ 500,729	\$ -	\$ -	\$ -	N/A
Certificates of Deposit	1,623,973	-	-	1,623,973	-	N/A
Municipal Securities	255,378	-	255,378	-	-	AA+
Asset Backed Securities	<u>3,498,594</u>	<u>-</u>	<u>-</u>	<u>467,535</u>	<u>3,031,059</u>	AAA
Total Investments	<u>\$ 5,878,674</u>	<u>\$ 500,729</u>	<u>\$ 255,378</u>	<u>\$ 2,091,508</u>	<u>\$ 3,031,059</u>	

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

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

Custodial credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County’s \$5,878,674 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, \$10,627,660 of the County’s bank balance of \$13,410,484 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Statutory Authority:

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

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

NOTE 4 - RECEIVABLES

Loans receivable – Housing Commission Fund (Major Fund)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0% to 3.5% and the grants with liens are payable upon transfer of title. The receivable is offset with unearned 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, 2013, the total outstanding loans were \$2,354,290.

NOTE 5 - CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,785,743	\$ 42,219	\$ -	\$ 1,827,962
Construction in Progress	<u>157,125</u>	<u>-</u>	<u>(155,357)</u>	<u>1,768</u>
Subtotal	<u>1,942,868</u>	<u>42,219</u>	<u>(155,357)</u>	<u>1,829,730</u>
<i>Capital assets being depreciated:</i>				
Buildings	16,083,310	842,247	(89,529)	16,836,028
Furniture and Fixtures	495,035	25,515	-	520,550
Equipment:				
Data Handling	1,193,287	11,180	(8,157)	1,196,310
Other Equipment	2,211,394	22,833	-	2,234,227
Commission on Aging	140,189	-	-	140,189
Vehicles	1,901,450	55,589	-	1,957,039
Infrastructure	<u>12,208,682</u>	<u>105,000</u>	<u>-</u>	<u>12,313,682</u>
Subtotal	<u>34,233,347</u>	<u>1,062,364</u>	<u>(97,686)</u>	<u>35,198,025</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(8,628,474)	(604,467)	7,162	(9,225,779)
Furniture and Fixtures	(281,228)	(37,391)	-	(318,619)
Equipment:				
Data Handling	(1,078,423)	(35,266)	8,157	(1,105,532)
Other Equipment	(1,032,957)	(9,825)	-	(1,042,782)
Commission on Aging	(118,597)	(6,309)	-	(124,906)
Vehicles	(1,782,798)	(58,906)	-	(1,841,704)
Infrastructure	<u>(4,890,623)</u>	<u>(568,783)</u>	<u>-</u>	<u>(5,459,406)</u>
Subtotal	<u>(17,813,100)</u>	<u>(1,320,947)</u>	<u>15,319</u>	<u>(19,118,728)</u>
Net Capital Assets Being Depreciated	<u>16,420,247</u>	<u>(258,583)</u>	<u>(82,367)</u>	<u>16,079,297</u>
Capital Assets – Net	<u>\$ 18,363,115</u>	<u>\$ (216,364)</u>	<u>\$ (237,724)</u>	<u>\$ 17,909,027</u>

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

Governmental Activities:	
General Government	\$ 308,504
Public Safety	90,794
Public Works	637,932
Health and Welfare	25,204
Recreation and Culture	<u>258,513</u>
 Total Depreciation – Governmental Activities	 <u>\$ 1,320,947</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
<i>Capital assets being depreciated:</i>				
Buildings	760,033	-	-	760,033
Vehicles	2,019,736	-	(84,474)	1,935,262
Equipment	551,419	-	-	551,419
Subtotal	<u>3,331,188</u>	<u>-</u>	<u>(84,474)</u>	<u>3,246,714</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(346,237)	(38,002)	-	(384,239)
Vehicles	(960,281)	(108,657)	84,474	(984,464)
Equipment	(410,041)	(18,392)	-	(428,433)
Subtotal	<u>(1,716,559)</u>	<u>(165,051)</u>	<u>84,474</u>	<u>(1,797,136)</u>
Net Capital Assets Being Depreciated	<u>1,614,629</u>	<u>(165,051)</u>	<u>-</u>	<u>1,449,578</u>
Capital Assets – Net	<u>\$ 1,714,627</u>	<u>\$ (165,051)</u>	<u>\$ -</u>	<u>\$ 1,549,576</u>

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

Business-Type Activities:	
University Center Metropolitan Area Network	\$ 12,300
Bus System	<u>152,751</u>
Total Business-Type Activities	<u>\$ 165,051</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	3,934,836	-	-	3,934,836
Road Equipment	5,438,994	565,601	(162,733)	5,841,862
Shop Equipment	97,786	-	-	97,786
Office Equipment	42,654	347	-	43,001
Engineer's Equipment	16,975	-	-	16,975
Yard and Storage Equipment	1,800	-	-	1,800
Depletable Assets	4,760	-	-	4,760
Traffic Signals	44,756	-	-	44,756
Infrastructure – Bridges	1,780,315	-	-	1,780,315
Infrastructure – Roads	<u>40,226,003</u>	<u>4,902,593</u>	<u>-</u>	<u>45,128,596</u>
Subtotal	<u>51,588,879</u>	<u>5,468,541</u>	<u>(162,733)</u>	<u>56,894,687</u>
<i>Less accumulated depreciation:</i>				
Building	(1,460,981)	(87,899)	-	(1,548,880)
Road Equipment	(5,084,947)	(164,852)	162,328	(5,087,471)
Shop Equipment	(88,461)	(2,801)	-	(91,262)
Office Equipment	(35,192)	(2,851)	-	(38,043)
Engineer's Equipment	(14,803)	(465)	-	(15,268)
Yard and Storage Equipment	(1,800)	-	-	(1,800)
Traffic Signals	(32,029)	(2,984)	-	(35,013)
Infrastructure – Bridges	(553,130)	(70,946)	-	(624,076)
Infrastructure – Roads	<u>(22,975,048)</u>	<u>(2,031,323)</u>	<u>-</u>	<u>(25,006,371)</u>
Subtotal	<u>(30,246,391)</u>	<u>(2,364,121)</u>	<u>162,328</u>	<u>(32,448,184)</u>
Net Capital Assets Being Depreciated	<u>21,342,488</u>	<u>3,104,420</u>	<u>(405)</u>	<u>24,446,503</u>
Capital Assets – Net	<u>\$ 21,512,645</u>	<u>\$ 3,104,420</u>	<u>\$ (405)</u>	<u>\$ 24,616,660</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	535,836	50,279	-	586,115
Vehicles	<u>1,760,847</u>	<u>140,440</u>	<u>(169,130)</u>	<u>1,732,157</u>
Subtotal	<u>3,021,683</u>	<u>190,719</u>	<u>(169,130)</u>	<u>3,043,272</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(464,000)	(29,000)	-	(493,000)
Other Equipment	(457,135)	(22,856)	-	(479,991)
Vehicles	<u>(1,044,328)</u>	<u>(110,352)</u>	<u>169,130</u>	<u>(985,550)</u>
Subtotal	<u>(1,965,463)</u>	<u>(162,208)</u>	<u>169,130</u>	<u>(1,958,541)</u>
Net Capital Assets Being Depreciated	<u>\$ 1,056,220</u>	<u>\$ 28,511</u>	<u>\$ -</u>	<u>\$ 1,084,731</u>

Depreciation expense was charged entirely to Health and Welfare.

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 144,125	\$ -	\$ -	\$ 144,125
Leasehold Improvements	24,854	-	-	24,854
Furniture and Fixtures	323,707	-	-	323,707
Data Handling Equipment	<u>526,802</u>	<u>19,018</u>	<u>(3,180)</u>	<u>542,640</u>
Subtotal	<u>1,019,488</u>	<u>19,018</u>	<u>(3,180)</u>	<u>1,035,326</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(32,779)	(10,575)	-	(43,354)
Leasehold Improvements	(24,853)	-	-	(24,853)
Furniture and Fixtures	(199,143)	(22,216)	-	(221,359)
Data Handling Equipment	<u>(514,874)</u>	<u>(15,098)</u>	<u>3,180</u>	<u>(526,792)</u>
Subtotal	<u>(771,649)</u>	<u>(47,889)</u>	<u>3,180</u>	<u>(816,358)</u>
Net Capital Assets Being Depreciated	<u>\$ 247,839</u>	<u>\$ (28,871)</u>	<u>\$ -</u>	<u>\$ 218,968</u>

Depreciation expense was charged entirely to Recreation and Culture.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

		DUE TO OTHER FUNDS	
		Nonmajor Governmental	
DUE FROM OTHER FUNDS	General Fund	\$	30,000
	Nonmajor Governmental		<u>97,000</u>
	Total	\$	<u>127,000</u>

		ADVANCES TO OTHER FUNDS	
		Component Unit Ambulance	
ADVANCES FROM OTHER FUNDS	Governmental Units		
	Public Improvement	\$	<u>445,739</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							
TRANSFERS IN	General	Housing Commission	Revenue Sharing Reserve	Nonmajor Governmental	Delinquent Tax	Nonmajor Enterprise	Total
	General	\$ 125,000	\$ -	\$ 482,081	\$ 12,300	\$ 100,000	\$ -
Nonmajor Governmental	1,120,302	761	-	277,342	86,000	6,800	1,491,205
Nonmajor Enterprise	-	-	-	17,000	-	-	17,000
Internal Service	<u>123,000</u>	-	-	-	-	-	<u>123,000</u>
Total	<u>\$ 1,368,302</u>	<u>\$ 761</u>	<u>\$ 482,081</u>	<u>\$ 306,642</u>	<u>\$ 186,000</u>	<u>\$ 6,800</u>	<u>\$ 2,350,586</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>01/01/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/13</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
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%.	\$ 115,000	\$ -	\$ 55,000	\$ 60,000	\$ 60,000
Otsego County Building Authority Series 2010 Bonds, maturing serially through 2020 in annual amounts ranging from \$20,000 to \$240,000 and at interest rates from 2.0% to 4.0%.	1,670,000	-	190,000	1,480,000	185,000
Otsego County Brownfield Redevelopment Authority loan, maturing through 2024 with payments starting in 2014 ranging from \$47,472 to \$48,184 and interest at 1.5%.	480,926	-	-	480,926	48,184
Vested Employee Benefits Payable (1)	<u>105,092</u>	<u>64,214</u>	<u>-</u>	<u>169,306</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 2,371,018</u>	<u>\$ 64,214</u>	<u>\$ 245,000</u>	<u>\$ 2,190,232</u>	<u>\$ 293,184</u>

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

NOTE 7 - LONG-TERM DEBT (Continued)

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

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 293,184	\$ 54,205
2015	251,519	51,165
2016	247,142	44,318
2017	242,774	36,611
2018	263,416	27,569
2019-2023	687,043	32,679
2024	35,848	712
Total	<u>\$ 2,020,926</u>	<u>\$ 247,259</u>

Road Commission – Component Unit

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

	<u>Balance</u>		<u>Balance</u>	<u>Due</u>
	<u>01/01/13</u>	<u>Increases</u>	<u>12/31/13</u>	<u>Within</u>
				<u>One Year</u>
General Obligation:				
Bonds Payable	\$ 855,000	\$ -	\$ 825,000	\$ 30,000
Installment Purchase Agreements	-	460,642	460,642	151,727
Vested Employee Benefits (1)	78,432	-	75,843	-
Total Long-Term Debt	<u>\$ 933,432</u>	<u>\$ 460,642</u>	<u>\$ 1,361,485</u>	<u>\$ 181,727</u>

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

Installment Purchase Agreements

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

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

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

	<u>Installment Note Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 151,727	\$ 8,246	\$ 159,973
2017	153,534	6,796	160,330
2018	155,381	3,418	158,799
TOTALS	<u>\$ 460,642</u>	<u>\$ 18,460</u>	<u>\$ 479,102</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Bonds Payable

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

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

<u>Year End December 31</u>	<u>Amount</u>
2014	65,263
2015	69,163
2016	67,938
2017	66,712
2018	65,488
2019	69,175
2020	67,775
2021	66,325
2022	69,563
2023 - 2031	<u>606,548</u>
Total Payments	1,213,950
Less Interest and Fees	<u>(388,950)</u>
Net Balance Due	<u>\$ 825,000</u>

NOTE 8 - VESTED EMPLOYEE BENEFITS

Primary Government

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

Vested Employee Benefits Payable – Bus System (Enterprise Fund)

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

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

Upon termination, an employee receives payment for the balance of any unused vacation leave which begins to accrue on the employee’s anniversary date. Employees can carry over a maximum base vacation leave to the next year. Unused sick leave may be paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2013 will be paid from current financial resources and is not recorded as long-term liability.

NOTE 8 - VESTED EMPLOYEE BENEFITS (Continued)

Road Commission – Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2013 at current wage rates amounted to \$75,843 and are reflected in the Long-Term Debt. Sick leave is not vested and accordingly is not accrued.

NOTE 9 - OPERATING LEASES

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

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

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

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

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

Primary Government

DEFINED BENEFIT RETIREMENT PLAN

Description of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General Non-union, POAM, Teamsters Local #214, and 46th Circuit Court is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC-5), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors and the Sheriff-POLC Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC-5), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2012.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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

Funding Policy

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

The contribution rate as a percentage of payroll at December 31, 2013 is as follows:

<u>Division Name</u>	<u>Monthly \$ Amount or Employer %</u>
General Non-Union	\$ 3,503
General Non-Union after January 1, 2009	7.18%
Library Non-Union	9.23%
General Local 214	\$ 5,079
General Local 214 Clerical	\$ 3,610
Clerical Local 214 after January 1, 2012	4.83%
POAM	\$ 4,138
POAM after January 1, 2011	5.15%
Elected/Appointed Supervisors	\$ 15,858
Elected/Appointed Supervisors after January 1, 2009	6.32%
Court Union	\$ 6,823
Court Union after June 1, 2011	4.89%
Sheriff Union	\$ 6,995
Sheriff Union New Hire	2.17%
Library Director	8.13%

Annual Pension Cost

During the calendar year ended December 31, 2013, the County’s contributions totaled \$727,962 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, 2012, 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.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Year Ended <u>Dec 31</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 565,476	100%	0
2012	705,702	100%	0
2013	727,962	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:

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	6.54%	Clerical 214 1/1/12	5.92%
General Non Union after 1/1/09	6.79%	Bus 1/1/11	5.92%
POAM 1/1/11	5.78%		

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.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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, 2012. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2012 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 12/31/12)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 6,986,099
Vested former members	88,570
Active members	<u>3,165,497</u>
Total actuarial accrued liability	10,240,166
Net position available for benefits, at actuarial value (Market value is \$5,569,408)	<u>6,368,969</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 3,871,197</u>

For the calendar year 2014, the Annual Required Contribution (ARC) is \$351,972.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions are actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2013 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 26 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 288,204	100%	0
2011	329,280	100%	0
2012	351,972	100%	0

The Road Commission was required to contribute \$316,457 and elected to pay an additional \$120,000 for the year ended December 31, 2013. 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.

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 80% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2013, the County contributed \$81,093 to the plan.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

Annual required contribution	\$ 424,314
Interest on net OPEB obligation	63,246
Adjustment to annual required contribution	<u>(97,320)</u>
Annual OPEB cost (expense)	390,240
Contributions made	<u>(81,093)</u>
Increase in net OPEB obligation	309,147
Adjustment to net OPEB obligation	63,992
Net OPEB obligation – beginning of year	<u>1,517,169</u>
Net OPEB obligation – end of year	<u>\$ 1,890,308</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 2011, 2012 and 2013 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>
2011	\$ 366,195	30%	\$ 1,314,661
2012	383,583	31%	1,581,161
2013	390,240	21%	1,890,308

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

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

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

In the December 31, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. Both rates included percent inflation assumptions of 3%. The actuarial value of assets (if any) was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

Component Unit – Road Commission

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

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

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

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

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Progress. For the year ended December 31, 2013, the Road Commission has determined an estimated cost of providing post employment benefits through the alternative measurement method of calculation as of December 31, 2013. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

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

Annual required contribution/Annual OPEB cost (ARC)	\$ 1,348,848
Interest on net OPEB obligation	<u>239,513</u>
Annual OPEB cost (expense)	1,588,361
Contributions made	<u>(344,371)</u>
Decrease in net OPEB obligation	1,243,990
Net OPEB obligation – beginning of year	<u>5,987,820</u>
Net OPEB obligation – end of year	<u>\$ 7,231,810</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 2011, 2012 and 2013 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>
2011	\$ 1,499,712	29.23%	\$ 4,832,866
2012	1,542,163	25.10%	5,987,820
2013	1,588,361	21.68%	7,231,810

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

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

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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

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

NOTE 12 - DEFERRED COMPENSATION PLANS

Primary Government

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

Commission on Aging

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

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

NOTE 12 - DEFERRED COMPENSATION PLAN (Continued)

Component Unit – Road Commission

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

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

Component Unit – Sportsplex

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

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS

Primary Government

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

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

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

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

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2013, the balance of the County’s member retention was \$269,750.

<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, 2013 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

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

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

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

Component Unit – Road Commission

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

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

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

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

At December 31, 2013, 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, 2013, 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, 2013, 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 are 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, 2013.

NOTE 15 - STATE EQUIPMENT PURCHASE ADVANCE

Component Unit – Road Commission

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

NOTE 16 - CAPITAL LEASES

Component Unit – EMS Capital Leases – EMS leases defibrillators and a heart monitor under capital leases with yearly lease payments of \$8,534 and \$4,787, respectively including an interest rate of 14.88%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

2014	\$ 13,320
2015	13,320
2016	<u>7,793</u>
Total minimum lease payments	34,433
Less amount representing interest	<u>(6,859)</u>
Present value of minimum lease payments	<u>\$ 27,574</u>

NOTE 17 - LITIGATION

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

Required Supplementary Information

Pension:

Primary Government

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

	2010	2011	2012
Actuarial Value of Assets	\$ 12,086,707	\$ 12,509,030	\$ 12,950,153
Actuarial Accrued Liability	16,602,287	17,429,652	17,957,093
Unfunded AAL	4,515,580	4,920,622	5,006,940
Funded Ratio	73%	72%	72%
Covered Payroll	4,384,058	4,400,424	4,014,917
UAAL as a Percentage of Covered Payroll	103%	112%	125%

Road Commission – Component Unit

	2010	2011	2012
Actuarial Value of Assets	\$ 6,419,431	\$ 6,380,020	\$ 6,368,969
Actuarial Accrued Liability	9,550,340	10,032,901	10,240,166
Unfunded AAL	3,130,909	3,652,881	3,871,197
Funded Ratio	67%	64%	62%
Covered Payroll	1,198,321	1,285,741	1,369,588
UAAL as a Percentage of Covered Payroll	261%	284%	283%

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

2013	\$	-	\$ 13,009,780	\$ 13,009,780	0.0%	\$ 1,476,170	881%
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County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 4,491,694	\$ 4,491,694	\$ 4,698,675	\$ 206,981
Licenses and Permits	25,400	25,400	37,177	11,777
Federal Sources	68,000	69,156	61,641	(7,515)
State Sources	838,806	870,539	823,788	(46,751)
Local Contributions	18,500	18,500	24,675	6,175
Charges for Services	821,475	821,475	928,236	106,761
Fines and Forfeits	9,700	9,700	12,304	2,604
Interest and Rentals	80,000	80,000	111,306	31,306
Other Revenues	500,634	535,936	658,462	122,526
TOTAL REVENUES	6,854,209	6,922,400	7,356,264	433,864
EXPENDITURES:				
Legislative:				
Board of Commissioners	190,558	199,198	193,700	5,498
Judicial:				
Circuit Court	1,108,528	1,102,891	985,602	117,289
Lein Fees	11,500	11,500	9,275	2,225
Drug Court	125,088	125,088	69,810	55,278
RDSS Transport	20,000	20,000	6,779	13,221
District Court	68,197	68,197	67,858	339
Jury Commission	28,850	28,850	15,639	13,211
Probate Court	173,572	173,572	172,568	1,004
Probation/Parole	1,500	1,500	1,435	65
Family Counseling	4,000	4,000	3,975	25
Total Judicial	1,541,235	1,535,598	1,332,941	202,657
General Government:				
Administrative Services	191,823	191,823	191,823	-
Building and Grounds	303,946	305,946	305,946	-
Clerk and Register of Deeds	240,866	240,866	235,895	4,971
Audit Services	15,466	16,553	16,552	1
IT Department	60,660	60,660	59,882	778
Equalization	234,191	236,451	236,347	104
Treasurer	99,574	99,574	96,922	2,652
Cooperative Extension	55,307	55,307	55,278	29
Elections	-	20,752	134	20,618
Prosecuting Attorney	475,085	475,585	434,159	41,426
Legal Defense	45,000	45,000	44,171	829
Human Resources	52,351	52,351	52,351	-
Surveyor	200	200	200	-
Soil Conservation	4,000	4,000	4,000	-
Survey and Remonumentation	34,316	34,316	34,172	144
Total General Government	1,812,785	1,839,384	1,767,832	71,552
Public Safety:				
Sheriff	711,126	715,176	676,805	38,371
Civil Division	31,574	32,908	32,854	54
SANE	10,000	10,000	10,000	-
Justice Training	2,000	2,239	2,238	1
Marine Safety	8,513	8,513	149	8,364
Motorcycle Safety Education	73,000	74,156	46,321	27,835
Snowmobile	10,992	10,992	2,795	8,197
Secondary Road Patrol	61,786	68,864	68,681	183
ORV	10,292	10,292	3,244	7,048
Jail	966,676	998,089	932,337	65,752
Emergency Services	30,000	30,000	30,000	-
Total Public Safety	1,915,959	1,961,229	1,805,424	155,805

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Drains	6,000	6,000	4,250	1,750
Total Public Works	6,000	6,000	4,250	1,750
Health And Welfare:				
Communicable Diseases	500	500	500	-
Medical Examiner	97,740	100,820	100,548	272
District Health	174,096	174,096	174,096	-
Mental Health	94,003	117,504	117,504	-
Soldiers and Sailors Relief	7,500	7,500	2,316	5,184
Homeless Shelter	2,000	2,000	2,000	-
Veterans' Burial	10,050	10,050	7,154	2,896
Veterans' Affairs	40,976	41,226	40,859	367
Substance Abuse	98,650	128,086	128,086	-
Total Health and Welfare	525,515	581,782	573,063	8,719
Community and Economic Development:				
McCoy/Milbocker Road Project	-	50,000	50,000	-
Planning and Zoning	92,485	103,084	88,674	14,410
Total Community and Economic Development	92,485	153,084	138,674	14,410
Other Expenditures:				
Appropriations	26,050	26,050	32,676	(6,626)
Bonds and Insurance	270,083	258,957	258,672	285
Retiree Insurance	105,000	81,094	81,093	1
Other	157,612	51,760	31,133	20,627
Total Other Expenditures	558,745	417,861	403,574	14,287
TOTAL EXPENDITURES	6,643,282	6,694,136	6,219,458	474,678
EXCESS OF REVENUES OVER EXPENDITURES	210,927	228,264	1,136,806	908,542
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	619,852	619,852	719,381	99,529
Operating Transfers Out	(755,779)	(1,376,116)	(1,368,302)	7,814
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 75,000	\$ (528,000)	487,885	\$ 1,015,885
FUND BALANCES, JANUARY 1			3,056,352	
FUND BALANCES, DECEMBER 31			\$ 3,544,237	

**Required Supplementary Information
Budgetary Comparison Schedule
Housing Commission Fund
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 464,140	\$ 826,510	\$ 718,138	\$ (108,372)
Local Sources	50,000	79,630	126,677	47,047
Interest and Rentals	150	150	87	(63)
Other Revenues	50,800	62,902	67,325	4,423
TOTAL REVENUES	565,090	969,192	912,227	(56,965)
EXPENDITURES:				
Community and Economic Development	561,854	883,382	828,419	54,963
TOTAL EXPENDITURES	561,854	883,382	828,419	54,963
EXCESS OF REVENUES (EXPENDITURES)	3,236	85,810	83,808	(2,002)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	41,780	41,780	-	(41,780)
Operating Transfers Out	(19,046)	(68,833)	(761)	68,072
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 25,970	\$ 58,757	83,047	\$ 24,290
FUND BALANCE, JANUARY 1			101,816	
FUND BALANCE, DECEMBER 31			\$ 184,863	

**Required Supplementary Information
Budgetary Comparison Schedule
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest and Rentals	\$ -	\$ -	\$ 4,846	\$ 4,846
 TOTAL REVENUES	 -	 -	 4,846	 4,846
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(482,552)	(482,552)	(482,081)	471
 EXCESS (DEFICIENCY) OF REVENUES OVER OTHER FINANCING USES	 \$ (482,552)	 \$ (482,552)	 (477,235)	 \$ 5,317
 FUND BALANCE, JANUARY 1			 1,098,693	
 FUND BALANCE, DECEMBER 31			 \$ 621,458	

Required Supplementary Information
Budgetary Comparison Schedule
M-TEC
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 2,012,212	\$ 2,012,212	\$ 745,723	\$ (1,266,489)
Other Revenues	-	-	4,663	4,663
TOTAL REVENUES	<u>2,012,212</u>	<u>2,012,212</u>	<u>750,386</u>	<u>(1,261,826)</u>
EXPENDITURES:				
Community/Economic Development	2,012,212	2,012,212	754,124	1,258,088
TOTAL EXPENDITURES	<u>2,012,212</u>	<u>2,012,212</u>	<u>754,124</u>	<u>1,258,088</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$ -</u>	<u>\$ -</u>	(3,738)	<u>\$ (3,738)</u>
FUND BALANCE, JANUARY 1			<u>3,738</u>	
FUND BALANCE, DECEMBER 31			<u>\$ -</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Commission on Aging
For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,165,000	\$ 1,165,000	\$ 1,142,697	\$ (22,303)
Federal Sources	283,846	283,846	148,063	(135,783)
State Sources	-	-	86,814	86,814
Local Contributions	188,902	188,902	147,778	(41,124)
Charges for Services	95,020	95,020	115,667	20,647
Interest and Rentals	4,000	4,000	1,943	(2,057)
Other Revenues	9,800	9,800	26,531	16,731
TOTAL REVENUES	<u>1,746,568</u>	<u>1,746,568</u>	<u>1,669,493</u>	<u>(77,075)</u>
EXPENDITURES:				
Heath and Welfare	1,804,700	1,804,700	1,664,098	140,602
TOTAL EXPENDITURES	<u>1,804,700</u>	<u>1,804,700</u>	<u>1,664,098</u>	<u>140,602</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$ (58,132)</u>	<u>\$ (58,132)</u>	5,395	<u>\$ 63,527</u>
FUND BALANCE, OCTOBER 1			<u>795,174</u>	
FUND BALANCE, SEPTEMBER 30			<u>\$ 800,569</u>	

Other Information

County of Otsego, Michigan

Combining Balance Sheet General Fund December 31, 2013

	General	Budget Stabilization	Legal Defense	Soldiers and Sailors Relief	Totals
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 1,628,614	\$ 1,345,683	\$ 156,093	\$ 21,307	\$ 3,151,697
Investments - Unrestricted	481,599	-	-	-	481,599
Receivables:					
Taxes	22,222	-	-	-	22,222
Accounts	13,874	-	-	-	13,874
Due from Other Funds	-	30,000	-	-	30,000
Due from Other Governmental Units	201,333	-	-	-	201,333
Inventories	20,910	-	-	-	20,910
Prepaid Expense	6,306	-	-	-	6,306
TOTAL ASSETS	\$ 2,374,858	\$ 1,375,683	\$ 156,093	\$ 21,307	\$ 3,927,941
LIABILITIES:					
Accounts Payable	\$ 154,020	\$ -	\$ 2,933	\$ -	\$ 156,953
Accrued Liabilities	81,265	-	-	-	81,265
Unearned Revenue	145,486	-	-	-	145,486
TOTAL LIABILITIES	380,771	-	2,933	-	383,704
FUND BALANCES:					
Nonspendable	27,216	-	-	-	27,216
Assigned	-	1,375,683	153,160	21,307	1,550,150
Unassigned	1,966,871	-	-	-	1,966,871
TOTAL FUND BALANCES	1,994,087	1,375,683	153,160	21,307	3,544,237
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,374,858	\$ 1,375,683	\$ 156,093	\$ 21,307	\$ 3,927,941

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance - General Fund
For the Year Ended December 31, 2013**

	General	Budget Stabilization	Legal Defense	Soldiers and Sailors Relief	Totals
REVENUES:					
Taxes and Penalties	\$ 4,698,675	\$ -	\$ -	\$ -	\$ 4,698,675
Licenses and Permits	37,177	-	-	-	37,177
Federal Sources	61,641	-	-	-	61,641
State Sources	823,788	-	-	-	823,788
Local Sources	24,675	-	-	-	24,675
Charges for Services	928,236	-	-	-	928,236
Interest and Rentals	111,105	55	146	-	111,306
Fines and Forfeitures	12,304	-	-	-	12,304
Other Revenue	657,781	-	-	681	658,462
TOTAL REVENUES	7,355,382	55	146	681	7,356,264
EXPENDITURES:					
Legislative	193,700	-	-	-	193,700
Judicial	1,332,941	-	-	-	1,332,941
General Government	1,723,661	-	44,171	-	1,767,832
Public Safety	1,805,424	-	-	-	1,805,424
Public Works	4,250	-	-	-	4,250
Health and Welfare	570,747	-	-	2,316	573,063
Community/Economic Development	138,674	-	-	-	138,674
Other Expenditures	403,574	-	-	-	403,574
TOTAL EXPENDITURES	6,172,971	-	44,171	2,316	6,219,458
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,182,411	55	(44,025)	(1,635)	1,136,806
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	494,381	100,000	120,000	5,000	719,381
Operating Transfers Out	(1,368,302)	-	-	-	(1,368,302)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	308,490	100,055	75,975	3,365	487,885
FUND BALANCES, JANUARY 1	1,685,597	1,275,628	77,185	17,942	3,056,352
FUND BALANCES, DECEMBER 31	\$ 1,994,087	\$ 1,375,683	\$ 153,160	\$ 21,307	\$ 3,544,237

	Special Revenue Funds								
	Work Camp	Parks and Recreation	Groen Nature Preserve	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling Fund	Gypsy Moth Control	Brownfield Redevelopment Authority
ASSETS:									
Cash and Equivalents	\$ 126,211	\$ 138,910	\$ 8,855	\$ 61,990	\$ 155,666	\$ 8,150	\$ 92,766	\$ 128,844	\$ 28,471
Investments	-	-	-	-	260,000	-	-	-	-
Taxes Receivable	-	218,915	-	-	349,665	-	290,457	-	-
Accounts Receivable	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Other Governmental Units	5,800	-	-	28,624	4,048	-	-	-	-
Prepaid Items	-	-	-	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 132,011	\$ 357,825	\$ 8,855	\$ 90,614	\$ 769,379	\$ 8,150	\$ 383,223	\$ 128,844	\$ 28,471
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	2,065	5,823	673	3,044	11,176	-	37,002	2,610	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
Accrued Liabilities	1,127	4,043	1,090	8,899	5,042	-	-	-	-
TOTAL LIABILITIES	3,192	9,866	1,763	41,943	16,218	-	37,002	2,610	-
DEFERRED INFLOWS OF RESOURCES									
Taxes Levied for a Subsequent Period	-	218,915	-	-	349,665	-	290,457	-	-
FUND BALANCES:									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	-	-	-	-	-	-	-
Restricted for Library	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	128,819	129,044	7,092	48,671	403,496	8,150	55,764	126,234	28,471
TOTAL FUND BALANCES	128,819	129,044	7,092	48,671	403,496	8,150	55,764	126,234	28,471
TOTAL LIABILITIES, INFLOWS OF RESOURCES AND FUND BALANCES	\$ 132,011	\$ 357,825	\$ 8,855	\$ 90,614	\$ 769,379	\$ 8,150	\$ 383,223	\$ 128,844	\$ 28,471

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2013**

	Special Revenue Funds								
	Building Department	Register of Deeds Automation Fund	Library	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services
ASSETS:									
Cash and Equivalents	\$ 367,928	\$ 56,848	\$ 124,796	\$ 448,615	\$ 59,845	\$ 5,770	\$ 12,671	\$ 11,464	\$ 6,240
Investments	-	-	449,798	-	-	-	-	-	-
Taxes Receivable	-	-	466,397	-	-	-	-	-	-
Accounts Receivable	1,753	190	239	15,421	-	-	-	-	-
Due from Other Funds	-	-	-	85,000	-	-	-	-	-
Due from Other Governmental Units	-	-	-	35,357	5,155	20,713	-	-	-
Prepaid Items	-	-	-	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 369,681	\$ 57,038	\$ 1,041,230	\$ 584,393	\$ 65,000	\$ 26,483	\$ 12,671	\$ 11,464	\$ 6,240
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 65,000	\$ 20,000	\$ -	\$ -	\$ -
Accounts Payable	151	1,791	20,062	50,651	-	6,483	120	262	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-
Accrued Liabilities	1,736	-	-	5,929	-	-	-	-	-
TOTAL LIABILITIES	1,887	1,791	20,062	56,580	65,000	26,483	120	262	-
DEFERRED INFLOWS OF RESOURCES									
Taxes Levied for a Subsequent Period	-	-	466,397	-	-	-	-	-	-
FUND BALANCES:									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	-	-	-	-	-	-	-
Restricted for Library	-	-	554,771	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	367,794	55,247	-	527,813	-	-	12,551	11,202	6,240
TOTAL FUND BALANCES	367,794	55,247	554,771	527,813	-	-	12,551	11,202	6,240
TOTAL LIABILITIES, INFLOWS OF RESOURCES AND FUND BALANCES	\$ 369,681	\$ 57,038	\$ 1,041,230	\$ 584,393	\$ 65,000	\$ 26,483	\$ 12,671	\$ 11,464	\$ 6,240

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2013**

	Special Revenue Funds						Debt Service Fund	Capital Project Fund	
	Child Care Probate	Veteran's Trust	Airport	Airport Special Events	Airport Planning Grant	Equipment Revolving	Bradford Lake Dam	Jail Debt Service	Public Improvements
ASSETS:									
Cash and Equivalents	\$ 322,699	\$ 3,317	\$ 96,041	\$ 24,082	\$ 24,475	\$ 151,366	\$ 20,068	\$ 163,812	\$ 575,355
Investments	-	-	-	-	-	-	-	-	300,000
Taxes Receivable	-	-	-	-	-	-	-	-	-
Accounts Receivable	2,026	-	36,131	100	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Other Governmental Units	42,221	-	-	-	-	-	-	-	3,550
Prepaid Items	-	-	13,254	-	-	-	-	-	-
Long-Term Advances to Component Units	-	-	-	-	-	-	-	-	445,739
Inventory	-	-	28,377	-	-	-	-	-	-
TOTAL ASSETS	\$ 366,946	\$ 3,317	\$ 173,803	\$ 24,182	\$ 24,475	\$ 151,366	\$ 20,068	\$ 163,812	\$ 1,324,644
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ -
Accounts Payable	43,888	-	20,133	1,045	-	-	-	-	-
Due to Other Governmental Units	28,139	-	-	-	-	-	-	-	-
Accrued Liabilities	2,899	-	2,958	-	-	-	-	-	-
TOTAL LIABILITIES	74,926	-	23,091	1,045	12,000	-	-	-	-
DEFERRED INFLOWS OF RESOURCES									
Taxes Levied for a Subsequent Period	-	-	-	-	-	-	-	-	-
FUND BALANCES:									
Nonspendable	-	-	41,631	-	-	-	-	-	445,739
Restricted for Debt Service	-	-	-	-	-	-	-	163,812	-
Restricted for Library	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	878,905
Assigned	292,020	3,317	109,081	23,137	12,475	151,366	20,068	-	-
TOTAL FUND BALANCES	292,020	3,317	150,712	23,137	12,475	151,366	20,068	163,812	1,324,644
TOTAL LIABILITIES, INFLOWS OF RESOURCES AND FUND BALANCES	\$ 366,946	\$ 3,317	\$ 173,803	\$ 24,182	\$ 24,475	\$ 151,366	\$ 20,068	\$ 163,812	\$ 1,324,644

	Capital Project Funds							Total
	Animal Control Shelter Building	Library Building	Court Restoration Building	Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Capital Projects	
	ASSETS:							
Cash and Equivalents	\$ -	\$ 233,290	\$ 70,880	\$ 78,614	\$ 8,976	\$ 216	\$ 258,279	\$ 3,875,510
Investments	-	300,000	-	-	-	-	-	1,309,798
Taxes Receivable	-	-	-	-	-	-	-	1,325,434
Accounts Receivable	-	-	-	-	-	-	-	55,860
Due from Other Funds	-	-	-	-	-	-	12,000	97,000
Due from Other Governmental Units	-	-	-	-	-	-	-	145,468
Prepaid Items	-	-	-	-	-	-	-	13,254
Long-Term Advances to Component Units	-	-	-	-	-	-	-	445,739
Inventory	-	-	-	-	-	-	-	28,377
TOTAL ASSETS	\$ -	\$ 533,290	\$ 70,880	\$ 78,614	\$ 8,976	\$ 216	\$ 270,279	\$ 7,296,440
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,000
Accounts Payable	-	-	-	-	-	-	1,000	207,979
Due to Other Governmental Units	-	-	-	-	-	-	-	28,139
Accrued Liabilities	-	-	-	-	-	-	-	33,723
TOTAL LIABILITIES	-	-	-	-	-	-	1,000	396,841
DEFERRED INFLOWS OF RESOURCES								
Taxes Levied for a Subsequent Period	-	-	-	-	-	-	-	1,325,434
FUND BALANCES:								
Nonspendable	-	-	-	-	-	-	-	487,370
Restricted for Debt Service	-	-	-	-	-	-	-	163,812
Restricted for Library	-	-	-	-	-	-	-	554,771
Committed	-	533,290	70,880	78,614	8,976	216	269,279	1,840,160
Assigned	-	-	-	-	-	-	-	2,528,052
TOTAL FUND BALANCES	-	533,290	70,880	78,614	8,976	216	269,279	5,574,165
TOTAL LIABILITIES, INFLOWS OF RESOURCES AND FUND BALANCES	\$ -	\$ 533,290	\$ 70,880	\$ 78,614	\$ 8,976	\$ 216	\$ 270,279	\$ 7,296,440

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2013

Special Revenue Funds

	Work Camp	Parks and Recreation	Groen Nature Preserve	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling Fund	Gypsy Moth Control	Brownfield Redevelopment Authority
REVENUES:									
Taxes and Penalties	\$ -	\$ 214,058	\$ -	\$ -	\$ 342,860	\$ -	\$ 286,194	\$ -	\$ 6,431
Federal Sources	-	-	-	298,995	-	-	-	-	-
State Sources	1,460	-	-	28,775	-	-	-	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	57,001	145,248	-	34,991	42,361	-	-	-	-
Fines and Forfeits	-	-	-	-	484	-	-	-	-
Interest and Rentals	-	-	-	-	3,382	-	-	303	-
Other Revenues	304	10,075	45,149	-	13,550	-	21	-	-
TOTAL REVENUES	58,765	369,381	45,149	362,761	402,637	-	286,215	303	6,431
EXPENDITURES:									
Judicial	-	-	-	446,569	-	-	-	-	-
General Government	-	-	-	-	-	-	231,151	-	-
Public Safety	103,860	-	-	-	360,525	-	-	-	-
Public Works	-	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	-	-	-	3,562	-
Recreation and Culture	-	386,280	49,516	-	-	-	-	-	-
Capital Outlay	-	-	-	-	25,289	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	103,860	386,280	49,516	446,569	385,814	-	231,151	3,562	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(45,095)	(16,899)	(4,367)	(83,808)	16,823	-	55,064	(3,259)	6,431
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	56,000	30,000	5,000	119,888	-	-	-	-	-
Operating Transfers Out	-	(5,000)	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	10,905	8,101	633	36,080	16,823	-	55,064	(3,259)	6,431
FUND BALANCES, JANUARY 1	117,914	120,943	6,459	12,591	386,673	8,150	700	129,493	22,040
FUND BALANCES, DECEMBER 31	\$ 128,819	\$ 129,044	\$ 7,092	\$ 48,671	\$ 403,496	\$ 8,150	\$ 55,764	\$ 126,234	\$ 28,471

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2013

Special Revenue Funds

	Building Department	Register of Deeds Automation Fund	Library	Emergency 911 Funds	Homeland Security Grant	Pre-Disaster Mitigation Grant	Local Officers Training	Law Library	Department of Human Services
REVENUES:									
Taxes and Penalties	\$ -	\$ -	\$ 490,596	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	9,494	-	155,808	31,647	-	-	-
State Sources	-	-	15,230	1,855	-	-	-	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	415,842	41,297	-	572,279	-	-	1,136	-	-
Fines and Forfeits	-	-	165,665	-	-	-	-	-	-
Interest and Rentals	-	-	4,639	912	-	-	-	-	-
Other Revenues	-	-	38,741	12,364	-	-	-	3,532	5,008
TOTAL REVENUES	415,842	41,297	724,365	587,410	155,808	31,647	1,136	3,532	5,008
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	-
General Government	-	25,687	-	-	-	31,647	-	-	-
Public Safety	234,643	-	-	496,065	155,808	-	4,802	-	-
Public Works	-	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	-	-	-	-	6,694
Recreation and Culture	-	-	716,828	-	-	-	-	-	-
Capital Outlay	14,995	-	-	50,964	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	249,638	25,687	716,828	547,029	155,808	31,647	4,802	-	6,694
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	166,204	15,610	7,537	40,381	-	-	(3,666)	3,532	(1,686)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	761	-	-	-	-	-	-	-
Operating Transfers Out	(97,500)	-	-	(17,300)	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	68,704	16,371	7,537	23,081	-	-	(3,666)	3,532	(1,686)
FUND BALANCES, JANUARY 1	299,090	38,876	547,234	504,732	-	-	16,217	7,670	7,926
FUND BALANCES, DECEMBER 31	<u>\$ 367,794</u>	<u>\$ 55,247</u>	<u>\$ 554,771</u>	<u>\$ 527,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,551</u>	<u>\$ 11,202</u>	<u>\$ 6,240</u>

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2013

	Special Revenue Funds						Debt Service Fund	Capital Project Fund	
	Child Care Probate	Veteran's Trust	Airport	Airport Special Events	Airport Planning Grant	Equipment Revolving	Bradford Lake Dam	Jail Debt Service	Public Improvement
REVENUES:									
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Federal Sources	4,796	-	-	-	25,231	-	-	-	
State Sources	221,671	10,500	-	-	-	-	-	-	
Local Sources	-	-	-	-	-	-	312,438	127,051	
Charges for Services	-	-	927,503	32,234	-	-	-	-	
Fines and Forfeits	25	-	-	-	-	-	-	-	
Interest and Rentals	-	-	93,812	-	-	359	87,826	43,492	
Other Revenues	35,164	-	18,137	44,937	-	25,159	-	958	
TOTAL REVENUES	261,656	10,500	1,039,452	77,171	25,231	25,518	400,264	171,501	
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	-	
General Government	-	-	-	-	-	-	-	-	
Public Safety	-	-	-	-	-	-	-	-	
Public Works	-	-	1,154,740	68,216	47,400	-	-	-	
Health And Welfare	566,842	7,781	-	-	-	-	-	-	
Recreation and Culture	-	-	-	-	-	-	-	-	
Capital Outlay	-	-	-	-	-	76,151	-	-	
Debt Service	-	-	-	-	-	-	375,283	-	
TOTAL EXPENDITURES	566,842	7,781	1,154,740	68,216	47,400	76,151	375,283	-	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(305,186)	2,719	(115,288)	8,955	(22,169)	(50,633)	-	24,981	171,501
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	225,000	-	205,235	-	-	166,000	-	-	19,838
Operating Transfers Out	-	-	-	-	-	(504)	-	-	(166,500)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(80,186)	2,719	89,947	8,955	(22,169)	114,863	-	24,981	24,839
FUND BALANCES, JANUARY 1	372,206	598	60,765	14,182	34,644	36,503	20,068	138,831	1,299,805
FUND BALANCES, DECEMBER 31	<u>\$ 292,020</u>	<u>\$ 3,317</u>	<u>\$ 150,712</u>	<u>\$ 23,137</u>	<u>\$ 12,475</u>	<u>\$ 151,366</u>	<u>\$ 20,068</u>	<u>\$ 163,812</u>	<u>\$ 1,324,644</u>

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2013

Capital Project Funds

	Animal Control Shelter Building	Library Building	Court Restoration Building	Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Capital Project	Total
REVENUES:								
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,340,139
Federal Sources	-	-	-	267,490	-	-	-	793,461
State Sources	-	-	-	7,040	-	-	-	286,531
Local Sources	-	-	-	-	-	-	-	439,489
Charges for Services	-	-	50,321	-	-	-	-	2,320,213
Fines and Forfeits	-	-	-	-	-	-	-	166,174
Interest and Rentals	29	1,778	-	-	-	-	7	236,539
Other Revenues	-	-	1,829	31,636	9,800	-	-	296,364
TOTAL REVENUES	29	1,778	52,150	306,166	9,800	-	7	5,878,910
EXPENDITURES:								
Judicial	-	-	-	-	-	-	-	446,569
General Government	-	-	-	-	-	-	-	288,485
Public Safety	-	-	-	-	-	-	-	1,355,703
Public Works	-	-	-	-	-	-	-	1,270,356
Health And Welfare	-	-	-	-	-	-	-	584,879
Recreation and Culture	-	-	-	-	-	-	-	1,152,624
Capital Outlay	-	-	37,372	339,670	11,950	-	477,204	1,033,595
Debt Service	-	-	-	-	-	-	-	375,283
TOTAL EXPENDITURES	-	-	37,372	339,670	11,950	-	477,204	6,507,494
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	29	1,778	14,778	(33,504)	(2,150)	-	(477,197)	(628,584)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	-	-	12,150	75,000	5,000	-	571,333	1,491,205
Operating Transfers Out	(19,838)	-	-	-	-	-	-	(306,642)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(19,809)	1,778	26,928	41,496	2,850	-	94,136	555,979
FUND BALANCES, JANUARY 1	19,809	531,512	43,952	37,118	6,126	216	175,143	5,018,186
FUND BALANCES, DECEMBER 31	\$ -	\$ 533,290	\$ 70,880	\$ 78,614	\$ 8,976	\$ 216	\$ 269,279	\$ 5,574,165

**Combining Statement of Net Position
Internal Service Funds
December 31, 2013**

	Building and Grounds	Administrative Services	Health Care	Total
ASSETS:				
Cash and Equivalents	\$ 209,428	\$ 43,001	\$ 502,505	\$ 754,934
Accounts Receivable	4,663	-	1,445	6,108
Due from Governmental Units	636	-	-	636
Prepaid Items	-	-	71,167	71,167
Inventory	-	325	-	325
TOTAL ASSETS	\$ 214,727	\$ 43,326	\$ 575,117	\$ 833,170
LIABILITIES:				
Accounts Payable	\$ 18,042	\$ 1,898	\$ 11,543	\$ 31,483
Accrued Liabilities	-	3,447	-	3,447
TOTAL LIABILITIES	18,042	5,345	11,543	34,930
NET POSITION:				
Unrestricted	196,685	37,981	563,574	798,240
TOTAL NET POSITION	196,685	37,981	563,574	798,240
TOTAL LIABILITIES AND NET POSITION	\$ 214,727	\$ 43,326	\$ 575,117	\$ 833,170

County of Otsego, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Position - Internal Service Funds For the Year Ended December 31, 2013

	Building and Grounds	Administrative Services	Health Care	Total
OPERATING REVENUES:				
Charges for Services	\$ 402,265	\$ 383,280	\$ 967,264	\$ 1,752,809
TOTAL OPERATING REVENUES	402,265	383,280	967,264	1,752,809
OPERATING EXPENSES:				
Salaries, Wages, and Fringe Benefits	-	379,089	1,019,800	1,398,889
Contractual Services	228,700	1,853	-	230,553
Materials and Supplies	1,181	5,911	-	7,092
Equipment Repair and Maintenance	27,499	335	-	27,834
Utilities	202,597	980	-	203,577
Other	2,050	6,583	-	8,633
TOTAL OPERATING EXPENSES	462,027	394,751	1,019,800	1,876,578
OPERATING INCOME (LOSS)	(59,762)	(11,471)	(52,536)	(123,769)
Non Operating Revenues (Expenses):				
Interest Earnings	-	-	260	260
INCOME (LOSS) BEFORE TRANSFERS	(59,762)	(11,471)	(52,276)	(123,509)
Operating Transfers In	-	-	123,000	123,000
Changes in Net Position	(59,762)	(11,471)	70,724	(509)
Net Position - January 1, 2013	256,447	49,452	492,850	798,749
Net Position - December 31, 2013	<u>\$ 196,685</u>	<u>\$ 37,981</u>	<u>\$ 563,574</u>	<u>\$ 798,240</u>

County of Otsego, Michigan

Combining Statement of Cash Flows Internal Service Funds For the Year Ended December 31, 2013

	Building and Grounds	Administrative Services	Health Care	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 400,563	\$ 383,840	\$ 946,236	\$ 1,730,639
Payments to Suppliers	(459,359)	(14,785)	(1,034,564)	(1,508,708)
Payments to Employees for Services and Benefits	-	(378,634)	-	(378,634)
Net Cash Provided (Used) by Operating Activities	<u>(58,796)</u>	<u>(9,579)</u>	<u>(88,328)</u>	<u>(156,703)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:				
Operating Transfers In	-	-	123,000	123,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>123,000</u>	<u>123,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	-	-	260	260
Net Sale or (Purchase) of Investments	-	-	465,573	465,573
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>-</u>	<u>465,833</u>	<u>465,833</u>
Net Increase (Decrease) in Cash and Equivalents	(58,796)	(9,579)	500,505	432,130
Balances - Beginning of the Year	<u>268,224</u>	<u>52,580</u>	<u>2,000</u>	<u>322,804</u>
Balances - End of the Year	<u>\$ 209,428</u>	<u>\$ 43,001</u>	<u>\$ 502,505</u>	<u>\$ 754,934</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (59,762)	\$ (11,471)	\$ (52,536)	\$ (123,769)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Accounts Receivable	(1,766)	560	(512)	(1,718)
Due from Governmental Units	64	-	-	64
Prepaid Expense	-	-	(20,516)	(20,516)
Accounts Payable	2,668	877	(14,764)	(11,219)
Accrued Liabilities	-	455	-	455
Net Cash Provided (Used) by Operating Activities	<u>\$ (58,796)</u>	<u>\$ (9,579)</u>	<u>\$ (88,328)</u>	<u>\$ (156,703)</u>

County of Otsego, Michigan

**Combining Statement of Net Position
Nonmajor Enterprise Funds
December 31, 2013**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
ASSETS:						
Cash and Equivalents	\$ 353,593	\$ 69,669	\$ 62,375	\$ 6,796	\$ 44,939	\$ 537,372
Investments	594,019	-	-	-	-	594,019
Accounts Receivable	-	-	-	3,882	-	3,882
Capital Assets (Net of Accumulated Depreciation)	-	-	122,986	-	-	122,986
TOTAL ASSETS	\$ 947,612	\$ 69,669	\$ 185,361	\$ 10,678	\$ 44,939	\$ 1,258,259
LIABILITIES:						
Accounts Payable	\$ 923	\$ 10,220	\$ -	\$ 3,270	\$ 8	\$ 14,421
Accrued Liabilities	1,606	-	-	-	-	1,606
TOTAL LIABILITIES	2,529	10,220	-	3,270	8	16,027
NET POSITION:						
Net Investment in Capital Assets	-	-	122,986	-	-	122,986
Unrestricted	945,083	59,449	62,375	7,408	44,931	1,119,246
TOTAL NET POSITION	\$ 945,083	\$ 59,449	\$ 185,361	\$ 7,408	\$ 44,931	\$ 1,242,232

County of Otsego, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Position - Nonmajor Enterprise Funds For the Year Ended December 31, 2013

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Total
OPERATING REVENUES:						
Local Sources	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Charges for Services	293,842	17,442	96,434	20,004	1,450	429,172
TOTAL OPERATING REVENUES	293,842	22,442	96,434	20,004	1,450	434,172
OPERATING EXPENSES:						
Salaries, Wages, and Fringe Benefits	42,112	-	-	-	-	42,112
Contractual Services	83	-	-	-	-	83
Materials and Supplies	3,778	34,641	-	16,587	-	55,006
Depreciation	-	-	12,300	-	-	12,300
Other Expenses	5,292	-	81,975	-	2,570	89,837
TOTAL OPERATING EXPENSES	51,265	34,641	94,275	16,587	2,570	199,338
OPERATING INCOME (LOSS)	242,577	(12,199)	2,159	3,417	(1,120)	234,834
NON OPERATING REVENUES (EXPENSES):						
Interest Earnings	20,443	-	-	-	2,952	23,395
INCOME (LOSS) BEFORE TRANSFERS	263,020	(12,199)	2,159	3,417	1,832	258,229
Operating Transfers In	-	17,000	-	-	-	17,000
Operating Transfers Out	(6,800)	-	-	-	-	(6,800)
Changes in Net Position	256,220	4,801	2,159	3,417	1,832	268,429
Net Position - January 1, 2013	688,863	54,648	183,202	3,991	43,099	973,803
Net Position - December 31, 2013	<u>\$ 945,083</u>	<u>\$ 59,449</u>	<u>\$ 185,361</u>	<u>\$ 7,408</u>	<u>\$ 44,931</u>	<u>\$ 1,242,232</u>

County of Otsego, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds For the Year Ended December 31, 2013

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Homestead Audit	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from Customers	\$ 293,842	\$ 25,442	\$ 118,402	\$ 16,122	\$ 1,450	\$ 455,258
Payments to Suppliers	(52,225)	(25,621)	(83,210)	(13,492)	(2,562)	(177,110)
Net Cash Provided (Used) by Operating Activities	<u>241,617</u>	<u>(179)</u>	<u>35,192</u>	<u>2,630</u>	<u>(1,112)</u>	<u>278,148</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:						
Operating Transfers In	-	17,000	-	-	-	17,000
Operating Transfers Out	(6,800)	-	-	-	-	(6,800)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>(6,800)</u>	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,200</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Net Sale or (Purchase) of Investments	(295,137)	-	-	-	-	(295,137)
Interest Earnings	20,443	-	-	-	2,952	23,395
Net Cash Provided (Used) by Investing Activities	<u>(274,694)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,952</u>	<u>(271,742)</u>
Net Increase (Decrease) in Cash and Equivalents	(39,877)	16,821	35,192	2,630	1,840	16,606
Balances - Beginning of the Year	<u>393,470</u>	<u>52,848</u>	<u>27,183</u>	<u>4,166</u>	<u>43,099</u>	<u>520,766</u>
Balances - End of the Year	<u>\$ 353,593</u>	<u>\$ 69,669</u>	<u>\$ 62,375</u>	<u>\$ 6,796</u>	<u>\$ 44,939</u>	<u>\$ 537,372</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	\$ 242,577	\$ (12,199)	\$ 2,159	\$ 3,417	\$ (1,120)	\$ 234,834
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	-	-	12,300	-	-	12,300
Change in Assets and Liabilities:						
Accounts Receivable	-	3,000	21,968	(3,882)	-	21,086
Accrued Liabilities	(57)	-	-	-	-	(57)
Accounts Payable	(903)	9,020	(1,235)	3,095	8	9,985
Net Cash Provided (Used) by Operating Activities	<u>\$ 241,617</u>	<u>\$ (179)</u>	<u>\$ 35,192</u>	<u>\$ 2,630</u>	<u>\$ (1,112)</u>	<u>\$ 278,148</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County of Otsego, Michigan's basic financial statements and have issued our report thereon dated June 5, 2014. Our report includes a reference to other auditors who audited the financial statements of the Otsego County Road Commission and Commission on Aging, as described in our report on the County of Otsego, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Members of the Board
County of Otsego, Michigan

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

Compliance and Other Matters

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

Purpose of this Report

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



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

June 5, 2014



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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AMBER N. MACK, CPA, EA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

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

Report on Compliance for Each Major Federal Program

We have audited the County of Otsego's, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Otsego's major federal programs for the year ended December 31, 2013. The County of Otsego's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the County of Otsego complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

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

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

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

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



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

June 5, 2014

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Award			
Aerospace Diversification Planning Project	10.769	N/A	\$ 20,031
Pass-through programs from Northeast Michigan Community Service Agency, Inc.			
Nutrition Services Incentive-Title III C1	10.570	N/A	11,620
Nutrition Services Incentive-Title III C2	10.570	N/A	28,474
Subtotal - NEMCSA			40,094
Total U.S. Department of Agriculture			60,125
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass-through programs from the Michigan State Housing Development Authority:			
Aerospace Diversification Planning Project	14.228	MSC-211003-EDPA	5,200
CDBG	14.228	MSC-2011-0812-HOA	96,938
CDBG	14.228	MSC-2009-0812-HO	194,400
CDBG	14.228	MSC-2011-0812-HO	426,800
Total U.S. Department of Housing and Urban Development			723,338
U.S. DEPARTMENT OF JUSTICE:			
Pass-through programs from the Michigan Department of Human Services:			
Juvenile Accountability Incentive Block Grant - 02/01/12 to 01/31/13	16.523	JABGN-11-20001	900
Juvenile Accountability Incentive Block Grant - 02/01/13 to 01/31/14	16.523	JABGN-12-20001	3,896
Total U.S. Department of Justice			4,796
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from the Michigan Department of Transportation:			
Road Projects - State Administered	20.205	N/A	2,558,429
Airport Project - State Administered	20.205	B-26-0036-2213	42,432
Airport Project - State Administered	20.205	F-26-0036-2111	225,058
Operating Grant - Section 5311	20.509	MI-18-X050	264,427
Subtotal - MDOT			3,090,346
Pass-through programs from the Michigan Department of State Police:			
HMEP	20.703	N/A	2,749
Motorcycle Safety Bike Purchase	20.612	N/A	1,150
Subtotal - Michigan Department of State Police			3,899
Total U.S. Department of Transportation			3,094,245
NATIONAL ENDOWMENT FOR THE ARTS			
Pass-through programs from Arts Midwest			
The Big Read	45.024	156888	9,494
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs from the Michigan Department of Human Services:			
Incentive Reimbursement	93.563	N/A	43,598
PA CRP Title IV-D - 10/01/12 to 9/30/15	93.563	CSPA-13-69002	41,745
FOC CRP Title IV-D - 10/01/12 to 9/30/15	93.563	CSFOC13-69001	255,397
PROFC Title IV-E	93.658	PRO-FC-11-69001	9,780
Subtotal - MDHS			350,520
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	34,564
Home Delivered Meals	93.045	N/A	19,443

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: (Continued)			
Title III Part E - National Family Caregiver Support			
Support Group	93.052	N/A	4,140
Respite (Up & Go)	93.052	N/A	82
Respite	93.052	N/A	2,000
Resource Room	93.052	N/A	3,000
Grandparents Kinship	93.052	N/A	1,258
NFCSP Parkinson Group	93.052	N/A	2,000
NFCSP Kinship (Grandparents)	93.052	N/A	1,200
Elder Abuse	93.052	N/A	750
Savvy Caregiver - Support Group	93.052	N/A	2,000
Other Programs	93.052	N/A	<u>12,907</u>
Subtotal - NEMCSA, Inc.			<u>107,969</u>
Total U.S. Department of Health and Human Services			<u>458,489</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through programs from the Michigan Department of Natural Resources:			
Marine Safety Grant	97.012	N/A	<u>128</u>
Subtotal - MDNR			<u>128</u>
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
Emergency Management Performance Grants 10/01/11-09/30/12	97.042	N/A	6,089
Pre-Disaster Mitigation Grant	97.047	PDMC-PL-05-MI-2011-009	31,647
2010 Homeland Security Grant	97.067	N/A	31,801
2012 Homeland Security Grant	97.067	N/A	<u>155,808</u>
Subtotal - MDSP, EMD			<u>225,345</u>
Total U.S. Department of Homeland Security			<u>225,473</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 4,575,960</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 Transportation which provided the greatest amount of indirect federal funding to the County during 2013.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement:	
Government Funds	\$ 1,721,303
Enterprise Funds:	
Operating	264,427
Component Unit:	
Ambulance	31,801
Road Commission	<u>2,558,429</u>
Total Federal Expenditures	<u>\$ 4,575,960</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, 2013, the Federal aid received and expended by the Airport was \$274,530 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 D - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year ended December 31, 2013, the Federal aid received and expended by the Road Commission was \$2,558,429 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 Commissions as they are included in MDOT's single audit

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
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

14.228	Community Development Block Grants
93.563	FOC/PA CRP Title IV-D
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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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, 2013, and have issued our report thereon dated June 5, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

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

As stated in our engagement letter dated October 26, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated October 26, 2013.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

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

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate to determine that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$1,314,000.

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

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 5, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed for the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Comments and Recommendations

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 and EMS corrected, Library is still 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)

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

Status: Uncorrected.

Bank Reconciliations (Prior Year)

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

Status: Corrected.

Reporting Employer Provided Health Coverage on Form W-2

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

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

Pension Reporting

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

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

Component Units

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

Conclusion

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

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



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