

Otsego County,
Michigan



Year Ended
December 31,
2016

Financial
Statements

OTSEGO COUNTY, MICHIGAN

ELECTED OFFICERS

For the Year Ended December 31, 2016

BOARD OF COMMISSIONERS

Ken Borton
Chairman

Doug Johnson
Vice Chairman

Erma Backenstose
Paul Liss
Julia Powers-Gehman
Robert Harkness

Paul Beachnau
Bruce Brown
Ken Glasser

OTHER OFFICIALS

John Burt
Appointed County Administrator

Diann Axford
Treasurer

Susan DeFeyer
Clerk/Register of Deeds

Matthew Nowicki
Sheriff

Michael A. Rola
Prosecuting Attorney

OTSEGO COUNTY, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

June 23, 2017

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Otsego County, Michigan* (the "County"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Otsego County Road Commission, a discretely presented component unit, which represents 86 percent, 83 percent, and 62 percent, respectively, of the assets and deferred outflows, net position, and revenues of the aggregate discretely presented component units. We did not audit the financial statements of the Otsego County Commission on Aging, a discretely presented component unit, which represents 2 percent, 3 percent, and 12 percent, respectively, of the assets and deferred outflows, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Otsego County Road Commission and Otsego County Commission on Aging is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Otsego County, Michigan*, as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Loborn LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

As management of Otsego County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Key metrics and financial highlights of the County for the year ended December 31, 2016 are as follows:

Total net position	\$31,334,478
Unrestricted net position	9,703,020
Change in net position	(1,277,862)
Fund balances, governmental funds	11,960,224
Change in fund balances, governmental funds	427,428
Fund balance, general fund	4,619,287
(as percentage of general fund expenditures and transfers out)	61%
Unassigned fund balance, general fund	4,601,720
(as percentage of general fund expenditures and transfers out)	60%

Overview of the Financial Statements

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

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

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

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

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

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

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

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

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

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

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

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

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Delinquent Tax Fund, Bus System, and Airport, which are considered to be major funds of the County as well as the aggregate of the nonmajor enterprise funds. The County maintains several types of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its delinquent tax, tax foreclosure, bus system, airport special events, global positioning system, university center metropolitan area network, homestead audit, and jail commissary operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its building and grounds, administration services, and health care functions. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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.

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management discussion and analysis and the schedules for the County pension and other postemployment benefits plans.

The *combining statements and schedules* referred to earlier in connection with nonmajor funds are presented following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities and deferred inflows of resources by approximately \$31,334,000 at the close of the most recent fiscal year. A portion of the County's net position represents its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Net Position

Net investment in capital assets is 52% of total net position. An additional portion of the County's net position, approximately 17%, represents resources that are subject to external restrictions on how they may be used. Restricted net position has constraints placed on it by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. The unrestricted portion of the County's net position is 31%. This net position may be used to meet the government's ongoing obligations to citizens and creditors.

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

The County's total net position decreased approximately 4%, or approximately \$1,278,000 to approximately \$31,334,000 for the year ended December 31, 2016.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 18,413,194	\$ 18,056,100	\$ 9,326,332	\$ 9,629,291	\$ 27,739,526	\$ 27,685,391
Capital assets, net	9,853,602	9,743,722	7,450,081	8,163,970	17,303,683	17,907,692
Total assets	28,266,796	27,799,822	16,776,413	17,793,261	45,043,209	45,593,083
Deferred outflows of resources						
Deferred pension amounts	2,626,420	501,614	544,221	83,924	3,170,641	585,538
Liabilities						
Long-term liabilities	2,038,770	2,471,090	-	-	2,038,770	2,471,090
Other liabilities	11,059,014	8,417,437	1,040,638	383,292	12,099,652	8,800,729
Total liabilities	13,097,784	10,888,527	1,040,638	383,292	14,138,422	11,271,819
Deferred inflows of resources						
Taxes levied for a subsequent period	2,740,950	2,294,462	-	-	2,740,950	2,294,462
Net position						
Net investment in capital assets	8,711,289	8,225,070	7,450,081	8,163,970	16,161,370	16,389,040
Restricted	5,470,088	5,100,031	-	-	5,470,088	5,100,031
Unrestricted	873,105	1,793,346	8,829,915	9,329,923	9,703,020	11,123,269
Total net position	\$ 15,054,482	\$ 15,118,447	\$ 16,279,996	\$ 17,493,893	\$ 31,334,478	\$ 32,612,340

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 2,283,073	\$ 1,931,704	\$ 1,768,953	\$ 1,881,325	\$ 4,052,026	\$ 3,813,029
Operating grants	2,696,643	2,480,107	957,362	866,496	3,654,005	3,346,603
Capital grants	36,316	93,120	-	-	36,316	93,120
General revenues:						
Property taxes	7,084,184	7,968,606	284,610	285,647	7,368,794	8,254,253
Interest and rentals	289,628	221,781	30,922	42,134	320,550	263,915
Other	1,615,023	1,637,880	297,972	467,988	1,912,995	2,105,868
Gain on sale of capital assets	-	606	-	-	-	606
Total revenues	14,004,867	14,333,804	3,339,819	3,543,590	17,344,686	17,877,394
Expenses						
Legislative	215,808	199,764	-	-	215,808	199,764
Judicial	1,941,671	1,880,211	-	-	1,941,671	1,880,211
General government	3,494,065	2,553,185	-	-	3,494,065	2,553,185
Public safety	4,126,567	4,304,627	-	-	4,126,567	4,304,627
Public works	154,652	68,792	-	-	154,652	68,792
Health and welfare	1,378,421	1,300,567	-	-	1,378,421	1,300,567
Community & economic development	1,337,303	997,512	-	-	1,337,303	997,512
Recreation and culture	1,525,880	1,409,665	-	-	1,525,880	1,409,665
Other expenses	-	552,683	-	-	-	552,683
Interest - unallocated	78,614	84,354	-	-	-	-
Delinquent tax collection	-	-	547,768	234,531	547,768	234,531
Bus System	-	-	1,954,767	1,850,405	1,954,767	1,850,405
Airport	-	-	1,524,185	1,539,330	1,524,185	1,539,330
Other business-type activities	-	-	342,847	302,582	342,847	302,582
Total expenses	14,252,981	13,351,360	4,369,567	3,926,848	18,543,934	17,193,854
Change in net position, before transfers	(248,114)	982,444	(1,029,748)	(383,258)	(1,199,248)	683,540
Transfers	184,149	407,382	(184,149)	(407,382)	-	-
Change in net position	(63,965)	1,389,826	(1,213,897)	(790,640)	(1,277,862)	599,186
Net position:						
Beginning of year	15,118,447	18,757,831	17,493,893	18,416,920	32,612,340	37,174,751
Restatement for implementation of GASB 68	-	(5,029,210)	-	(132,387)	-	(5,161,597)
End of year	\$ 15,054,482	\$ 15,118,447	\$ 16,279,996	\$ 17,493,893	\$ 31,334,478	\$ 32,612,340

Governmental activities

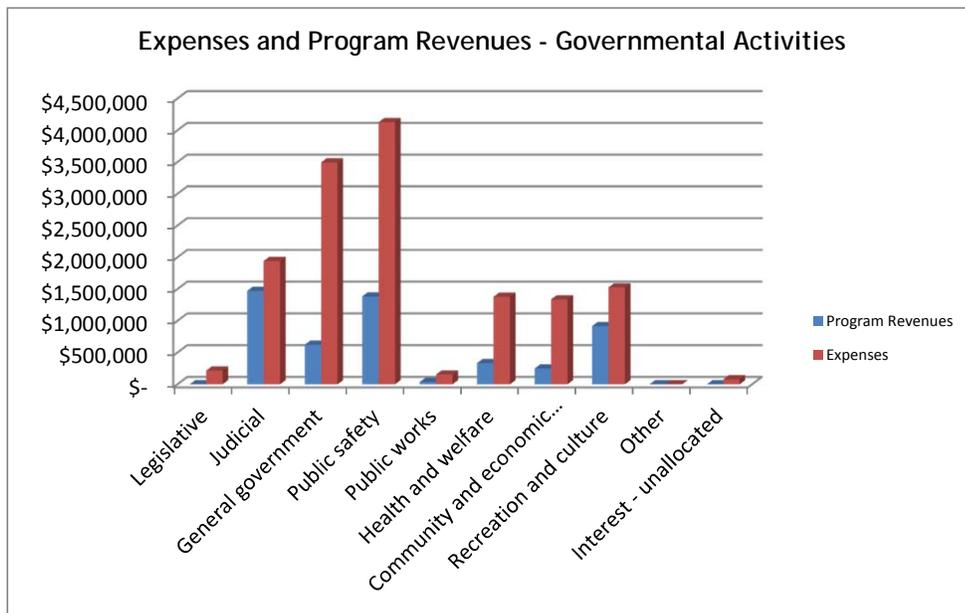
Governmental activities decreased the County's net position by approximately \$64,000. Overall revenues decreased by approximately \$567,000. The most significant decrease in revenues was from the property taxes, by approximately \$884,000. The ambulance building millage expired for fiscal year 2016, which had generated revenue of approximately \$1,134,000 in the previous fiscal year, thus decreasing the amount of property taxes received in fiscal year 2016. Expenses increased by approximately \$660,000. The most significant increase was in the general government function primarily due to an increase of approximately \$325,000 from pension and other postemployment benefit expenses.

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

Governmental activities consist primarily of:

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



Business-type activities

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

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

Financial Analysis of the County's Funds

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

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. In 2016 unassigned fund balance represented 33% of annual government expenditures in the governmental funds.

The fund balance of the General Fund increased by approximately \$281,000 from the prior year. Unassigned fund balance of approximately \$4,457,000, is available for spending at the County's discretion.

The County's Housing Commission Special Revenue Fund fund balance at December 31, 2016 was approximately \$152,000; an increase of approximately \$22,000 from the prior year.

The County's M-TEC Special Revenue Fund fund balance at December 31, 2016 was approximately \$100 which decreased approximately \$260 from the prior year.

The County's Public Improvements Capital Project Fund fund balance at December 31, 2016 was approximately \$1,816,000 which increased approximately \$22,000 from the prior year.

The County's Debt Service Fund fund balance at December 31, 2016 remained at \$0 for the 2016 fiscal year.

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

Unrestricted net position of the enterprise funds at year end amounted to approximately \$8,930,000. The enterprise funds had a decrease in net position for the year of approximately \$1,214,000, due primarily to the transfer out of approximately \$420,000 from the Tax Revolving fund used for various items including trail improvements, Veterans Memorial improvements, and a medical vehicle. Additionally, there was a loss on investments of approximately \$343,000 that contributed to the decrease in net position.

Unrestricted net position of the internal service funds at year end amounted to approximately \$515,000. The internal service funds had a decrease in net position for year of approximately \$80,000.

Budgetary Highlights

General Fund - The increase between the original and final amended budgets of revenue in the General Fund was a 3.83 percent increase.

The change between the original and final amended budgets of expenditures in the General Fund resulted in a 1.32 percent increase.

Overall during the year, General Fund revenues were in line with the budgetary estimates and came in lower than anticipated by approximately \$142,000 or 1.9 percent. Overall expenditures were under budget by approximately \$523,000 or 7.9 percent. This is a result of fewer medical expenses than anticipated within the Circuit Court, an additional pension contribution not made, fewer other professional fees and a budgeted other contingency not used.

Capital Asset and Debt Administration

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

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

	Capital Assets (Net of Depreciation, where applicable)					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,227,138	\$ 1,836,067	\$ 99,998	\$ 99,998	\$ 2,327,136	\$ 1,936,065
Construction in progress	146,867	365,100	16,500	219,670	163,367	584,770
Buildings	5,493,694	5,812,881	1,428,357	1,533,858	6,922,051	7,346,739
Furniture and Fixtures	90,887	122,045	-	-	90,887	122,045
Equipment	1,647,593	1,389,053	106,629	105,383	1,754,222	1,494,436
Vehicles	225,265	194,421	223,569	350,739	448,834	545,160
Infrastructure	22,158	24,155	5,575,028	5,854,322	5,597,186	5,878,477
Total capital assets, net	\$ 9,853,602	\$ 9,743,722	\$ 7,450,081	\$ 8,163,970	\$17,303,683	\$17,907,692

Current year additions for the 2016 fiscal year included construction in progress additions in the amount of approximately \$102,000 for the Nature Center Building, equipment additions for the purchase of a zamboni for approximately \$98,000 and building improvement of approximately \$142,000.

Long-Term Debt. At the end of the current year, the County had total installment debt and compensated absences outstanding of \$2,038,770.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Installment debt	\$ 1,867,313	\$ 2,278,652	\$ -	\$ -	\$ 1,867,313	\$ 2,278,652
Compensated absences	171,457	192,438	-	-	171,457	192,438
Total	\$ 2,038,770	\$ 2,471,090	\$ -	\$ -	\$ 2,038,770	\$ 2,471,090

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

The County is required to report the actuarially computed liability for Other Postemployment Healthcare Benefits (OPEB). The total actuarial accrued liability is approximately \$2,537,000. If the County were required to fund that liability the estimated annual contribution would be approximately \$240,000. The net OPEB obligation at the end of the fiscal year amounted to approximately \$2,174,000. This is a significant liability; however, due to changes in benefit levels for new employees, this liability is anticipated to decrease over time.

GASB 68, *Accounting and Financial Reporting for Pensions*, was implemented for the County's December 31, 2015 year end. Historically governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, the County is required to report a net pension liability based on the current funded status of their pension plans. The net pension liability reported on the Statement of Net Position for the governmental activities, business activities and component units is \$8,260,485, \$848,995 and \$5,125,023 respectively at December 31, 2016.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the County's 2017 budget:

- Property tax revenues are projected to increase approximately 3% - 5%.

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

Highlight of the 2017 budget is as follows:

- The cost of employee benefits continue to rise and will be monitored throughout the year.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Statement of Net Position

December 31, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 7,668,314	\$ 1,004,346	\$ 8,672,660	\$ 3,500,478
Investments	4,288,166	6,643,166	10,931,332	498,475
Receivables, net	5,532,805	1,249,186	6,781,991	4,513,406
Internal balances	(77,046)	227,046	150,000	-
Prepaid items	97,123	69,780	166,903	1,242
Inventory	13,592	42,808	56,400	731,372
Advance to component unit	165,240	90,000	255,240	-
Lease receivable from component unit	725,000	-	725,000	-
Capital assets not being depreciated	2,374,005	116,498	2,490,503	9,895,950
Capital assets being depreciated, net	7,479,597	7,333,583	14,813,180	24,502,667
Total assets	28,266,796	16,776,413	45,043,209	43,643,590
Deferred outflows of resources				
Deferred pension amounts	2,626,420	544,221	3,170,641	614,471
Liabilities				
Accounts payable and accrued liabilities	573,427	191,643	765,070	949,584
Advances from other government units	-	-	-	309,691
Unearned revenue	51,237	-	51,237	32,399
Advance from primary government	-	-	-	255,240
Long-term liabilities:				
Due within one year	272,483	-	272,483	387,890
Due in more than one year	1,766,287	-	1,766,287	1,719,670
Net pension liability	8,260,485	848,995	9,109,480	5,125,023
Net other postemployment benefits obligation	2,173,865	-	2,173,865	8,430,330
Total liabilities	13,097,784	1,040,638	14,138,422	17,209,827
Deferred inflows of resources				
Taxes levied for a subsequent period	2,740,950	-	2,740,950	2,410,005
Other state grants	-	-	-	85,108
Total deferred inflows	2,740,950	-	2,740,950	2,495,113
Net position				
Net investment in capital assets	8,711,289	7,450,081	16,161,370	32,514,946
Restricted	5,470,088	-	5,470,088	387,145
Unrestricted (deficit)	873,105	8,829,915	9,703,020	(8,348,970)
Total net position	\$ 15,054,482	\$ 16,279,996	\$ 31,334,478	\$ 24,553,121

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

OTSEGO COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 215,808	\$ -	\$ -	\$ -	\$ (215,808)
Judicial	1,941,671	607,595	864,204	-	(469,872)
General government	3,494,065	432,279	191,364	-	(2,870,422)
Public safety	4,126,567	961,621	422,126	-	(2,742,820)
Public works	154,652	-	-	36,316	(118,336)
Health and welfare	1,378,421	-	335,073	-	(1,043,348)
Community and economic development	1,337,303	36,415	212,434	-	(1,088,454)
Recreation and culture	1,525,880	245,163	671,442	-	(609,275)
Other	-	-	-	-	-
Interest - unallocated	78,614	-	-	-	(78,614)
Total governmental activities	14,252,981	2,283,073	2,696,643	36,316	(9,236,949)
Business-type activities:					
Delinquent tax revolving	547,768	317,520	-	-	(230,248)
Bus System 9/30/2016	1,954,767	341,872	937,182	-	(675,713)
Airport	1,524,185	807,265	20,180	-	(696,740)
Other business-type activities	342,847	302,296	-	-	(40,551)
Total business-type activities	4,369,567	1,768,953	957,362	-	(1,643,252)
Total primary government	\$ 18,622,548	\$ 4,052,026	\$ 3,654,005	\$ 36,316	\$ (10,880,201)
Component units					
Road Commission	\$ 7,565,508	\$ 2,472,303	\$ 2,289,538	\$ 3,502,037	\$ 698,370
Ambulance	2,036,432	1,712,331	-	-	(324,101)
University center	765,666	-	-	-	(765,666)
Commission on Aging 9/30/2016	1,794,515	55,556	439,332	-	(1,299,627)
Sportsplex	849,627	574,313	-	3,000	(272,314)
Total component units	\$ 13,011,748	\$ 4,814,503	\$ 2,728,870	\$ 3,505,037	\$ (1,963,338)

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expenses	\$ (9,236,949)	\$ (1,643,252)	\$ (10,880,201)	\$ (1,963,338)
General revenues:				
Property taxes	7,084,184	284,610	7,368,794	2,511,691
Interest and rentals	289,628	30,922	320,550	15,565
Other revenue	1,615,023	297,972	1,912,995	1,324,490
Gain on sale of capital assets	-	-	-	54,652
Transfers	184,149	(184,149)	-	-
Total general revenues and transfers	9,172,984	429,355	9,602,339	3,906,398
Change in net position	(63,965)	(1,213,897)	(1,277,862)	1,943,060
Net position, beginning of year	15,118,447	17,493,893	32,612,340	22,610,061
Net position, end of year	\$ 15,054,482	\$ 16,279,996	\$ 31,334,478	\$ 24,553,121

Concluded

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

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FUND FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Balance Sheet
 Governmental Funds
 December 31, 2016

	General Fund	Housing Commission Special Revenue Fund	M-TEC Special Revenue Fund
Assets			
Cash and cash equivalents	\$ 3,035,511	\$ 272,278	\$ 122
Investments	1,397,708	-	-
Receivables			
Accounts	35,722	-	-
Property taxes	237,763	-	748,366
Due from other governments	135,610	-	-
Loans	-	1,867,848	-
Advances to other funds	-	-	-
Advances to component units	-	-	-
Lease receivable from component unit	-	-	-
Inventories	13,267	-	-
Other assets	4,300	-	-
Total assets	\$ 4,859,881	\$ 2,140,126	\$ 748,488
Liabilities			
Accounts payable	\$ 170,880	\$ 178	\$ -
Accrued liabilities	41,742	482	-
Due to other funds	-	120,000	-
Due to other governments	-	-	-
Advances from other funds	-	-	-
Unearned revenue	-	-	-
Total liabilities	212,622	120,660	-
Deferred inflows of resources			
Taxes levied for a subsequent period	-	-	748,366
Unavailable resources	27,972	1,867,848	-
Total deferred inflows of resources	27,972	1,867,848	748,366
Fund balances			
Nonspendable	17,567	-	-
Restricted	-	151,618	122
Committed	-	-	-
Unassigned	4,601,720	-	-
Total fund balances	4,619,287	151,618	122
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,859,881	\$ 2,140,126	\$ 748,488

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

Public Improvements Capital Project Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,258,958	\$ -	\$ 2,862,706	\$ 7,429,575
200,000	-	2,490,458	4,088,166
116,350	-	119,522	271,594
-	-	1,964,612	2,950,741
-	-	296,647	432,257
-	-	-	1,867,848
75,707	-	-	75,707
165,240	-	-	165,240
-	725,000	-	725,000
-	-	-	13,267
-	-	-	4,300
<u>\$ 1,816,255</u>	<u>\$ 725,000</u>	<u>\$ 7,733,945</u>	<u>\$ 18,023,695</u>
\$ -	\$ -	\$ 188,257	\$ 359,315
-	-	14,821	57,045
-	-	-	120,000
-	-	109,323	109,323
-	-	32,753	32,753
-	-	51,237	51,237
-	-	396,391	729,673
-	-	1,964,612	2,712,978
-	725,000	-	2,620,820
-	725,000	1,964,612	5,333,798
-	-	-	17,567
-	-	3,470,967	3,622,707
1,816,255	-	1,901,975	3,718,230
-	-	-	4,601,720
<u>1,816,255</u>	<u>-</u>	<u>5,372,942</u>	<u>11,960,224</u>
<u>\$ 1,816,255</u>	<u>\$ 725,000</u>	<u>\$ 7,733,945</u>	<u>\$ 18,023,695</u>

OTSEGO COUNTY, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2016

Fund balances - total governmental funds	\$ 11,960,224
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	
Capital assets not being depreciated	2,374,005
Capital assets being depreciated, net	7,479,597
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows of resources in the governmental funds and, therefore, are not included in fund balance.	
Unavailable resources from mortgages and lease receivable	2,592,848
Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	514,975
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and notes payable	(1,867,313)
Compensated absences	(171,457)
Net other postemployment benefits obligation	(2,173,865)
Accrued interest on long-term debt	(20,467)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.	
Net pension liability	(8,260,485)
Deferred outflows related to the net pension liability	2,626,420
Net position of governmental activities	<u>\$ 15,054,482</u>

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

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OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2016

	General Fund	Housing Commission Special Revenue Fund	M-TEC Special Revenue Fund
Revenues			
Taxes	\$ 4,717,049	\$ -	\$ 732,402
Licenses and permits	41,766	-	-
Federal sources	86,109	210,590	-
State sources	1,284,338	-	-
Local sources	42,597	1,844	-
Charges for services	966,981	-	-
Fines and forfeits	15,028	-	-
Interest and rentals	200,291	121	-
Other	506,789	61,483	5,425
Total revenues	7,860,948	274,038	737,827
Expenditures			
Current:			
Legislative	215,808	-	-
Judicial	1,393,841	-	-
General government	2,039,666	-	-
Public safety	1,996,085	-	-
Public works	4,390	-	-
Health and welfare	551,914	-	-
Community and economic development	80,925	252,115	738,085
Recreation and culture	-	-	-
Other	336,074	-	-
Debt service:			
Principal	9,511	-	-
Interest and fiscal charges	-	-	-
Capital outlay	10,980	-	-
Total expenditures	6,639,194	252,115	738,085
Revenues over (under) expenditures	1,221,754	21,923	(258)
Other financing sources (uses)			
Transfers in	33,280	119,691	-
Transfers out	(974,167)	(120,277)	-
Total other financing sources (uses)	(940,887)	(586)	-
Net change in fund balances	280,867	21,337	(258)
Fund balances, beginning of year	4,338,420	130,281	380
Fund balances, end of year	\$ 4,619,287	\$ 151,618	\$ 122

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

Public Improvements Capital Project Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,634,733	\$ 7,084,184
-	-	-	41,766
50,000	-	310,759	657,458
-	-	455,433	1,739,771
-	312,713	-	357,154
-	-	1,274,326	2,241,307
-	-	216,738	231,766
22,286	-	61,892	284,590
-	-	778,986	1,352,683
<u>72,286</u>	<u>312,713</u>	<u>4,732,867</u>	<u>13,990,679</u>
-	-	-	215,808
-	-	454,698	1,848,539
-	-	342,222	2,381,888
50,000	-	1,774,089	3,820,174
-	-	150,262	154,652
-	-	823,356	1,375,270
-	-	-	1,071,125
-	-	1,177,323	1,177,323
-	-	9,287	345,361
-	240,000	161,828	411,339
-	72,713	5,901	78,614
-	-	855,457	866,437
<u>50,000</u>	<u>312,713</u>	<u>5,754,423</u>	<u>13,746,530</u>
<u>22,286</u>	<u>-</u>	<u>(1,021,556)</u>	<u>244,149</u>
-	-	1,162,202	1,315,173
-	-	(37,450)	(1,131,894)
-	-	1,124,752	183,279
22,286	-	103,196	427,428
<u>1,793,969</u>	<u>-</u>	<u>5,269,746</u>	<u>11,532,796</u>
<u>\$ 1,816,255</u>	<u>\$ -</u>	<u>\$ 5,372,942</u>	<u>\$ 11,960,224</u>

OTSEGO COUNTY, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds	\$ 427,428
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds reported capital outlays as expenditures. However in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Acquisition/construction of capital assets	866,435
Depreciation expense	(800,704)
Loss on sale of capital assets	(4,866)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Net change in unavailable resources from mortgages and lease receivable	(276,380)
Contributions from the Nature Center building of capital assets are not recognized in the funds but increase capital assets in the statement of net position.	
	49,015
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	411,339
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in the net pension liability and related deferred amounts	(438,800)
Change in compensated absences	20,981
Change in net other postemployment benefits obligation	(237,995)
An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Change in net position from internal service funds reported within the governmental activities	<u>(80,418)</u>
Change in net position of governmental activities	<u>\$ (63,965)</u>

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

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 4,663,000	\$ 4,841,000	\$ 4,717,049	\$ (123,951)
Licenses and permits	48,000	48,000	41,766	(6,234)
Federal sources	91,600	97,068	86,109	(10,959)
State sources	1,275,960	1,285,314	1,284,338	(976)
Local sources	19,800	19,800	42,597	22,797
Charges for services	850,305	860,005	966,981	106,976
Fines and forfeits	12,000	12,000	15,028	3,028
Interest and rentals	134,500	134,500	200,291	65,791
Other	612,785	705,631	506,789	(198,842)
Total revenues	7,707,950	8,003,318	7,860,948	(142,370)
Expenditures				
Legislative:				
Board of Commissioners	206,372	221,551	215,808	(5,743)
Judicial:				
Circuit court	1,071,504	1,073,174	1,009,243	(63,931)
Lien fees	11,800	11,800	11,295	(505)
Drug court	134,104	134,104	108,903	(25,201)
RDSS transport	15,000	15,000	4,483	(10,517)
District court	68,606	69,006	64,819	(4,187)
Jury commission	33,950	33,950	21,307	(12,643)
Probate court	173,620	173,820	169,869	(3,951)
Probation/parole	1,500	1,500	1,442	(58)
Family counseling	4,000	4,000	2,480	(1,520)
Total judicial	1,514,084	1,516,354	1,393,841	(122,513)
General government:				
Administrative services	279,904	279,904	270,404	(9,500)
Buildings and grounds	280,000	280,000	280,000	-
Clerk and register of deeds	274,225	278,703	273,205	(5,498)
Audit services	11,267	11,267	11,267	-
IT department	60,781	60,781	54,522	(6,259)
Equalization	216,127	223,723	222,412	(1,311)
Treasurer	125,414	129,754	128,560	(1,194)
Cooperative extension	58,980	59,060	58,869	(191)
Elections	25,740	35,740	33,103	(2,637)
Prosecuting attorney	498,253	501,182	492,778	(8,404)
Register of deeds	55,555	54,947	53,127	(1,820)
Legal defense	45,000	45,000	35,726	(9,274)
Human resources	86,707	86,707	86,707	-
Surveyor	200	200	200	-
Soil conservation	4,000	4,000	4,000	-
Survey and remonumentation	34,788	34,788	34,786	(2)
Total general government	2,056,941	2,085,756	2,039,666	(46,090)

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public safety:				
Sheriff	\$ 851,364	\$ 735,464	\$ 714,567	\$ (20,897)
Civil division	36,747	44,627	44,613	(14)
SANE	20,000	20,000	20,000	-
Justice training	-	1,968	1,938	(30)
Marine safety	7,905	9,354	8,115	(1,239)
Motorcycle safety education	48,541	48,541	54,276	5,735
Snowmobile	4,714	4,714	401	(4,313)
Secondary road patrol	74,286	83,293	83,072	(221)
ORV	6,614	18,575	13,311	(5,264)
Jail	1,036,323	1,064,600	1,025,792	(38,808)
Emergency	30,000	30,000	30,000	-
Total public safety	2,116,494	2,061,136	1,996,085	(65,051)
Public works:				
Drains	4,500	4,500	4,390	(110)
Health and welfare:				
Communicable diseases	500	500	500	-
Medical examiner	85,650	128,685	123,753	(4,932)
District health	195,909	195,909	195,909	-
Mental health	94,003	94,003	94,003	-
Soldiers and sailors relief	8,500	8,500	2,925	(5,575)
Veteran's burial	7,400	7,400	5,800	(1,600)
Veteran's affairs	58,293	58,994	55,371	(3,623)
Substance abuse	86,246	86,246	73,653	(12,593)
Total health and welfare	536,501	580,237	551,914	(28,323)
Community and Economic Development				
Planning and zoning	89,053	96,711	80,925	(15,786)
Other:				
Appropriations	16,050	16,050	15,998	(52)
Bonds and insurance	260,000	231,725	227,252	(4,473)
Retiree insurance	80,000	63,597	62,964	(633)
Additional pension contributions	-	135,000	-	(135,000)
Other	152,006	99,979	29,860	(70,119)
Total other	508,056	546,351	336,074	(210,277)
Capital outlay	37,400	49,868	10,980	(38,888)
Principal payments	-	-	9,511	9,511
Total expenditures	7,069,401	7,162,464	6,639,194	(523,270)
Revenues over expenditures	638,549	840,854	1,221,754	380,900

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - General Fund
 For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Operating transfers in	\$ 20,300	\$ 20,300	\$ 33,280	\$ 12,980
Operating transfers out	(703,849)	(978,636)	(974,167)	(4,469)
Proceeds from sale of capital assets	-	7,425	-	(7,425)
Total other financing sources (uses)	(683,549)	(950,911)	(940,887)	10,024
Net change in fund balance	(45,000)	(110,057)	280,867	390,924
Fund balance, beginning of year	4,338,420	4,338,420	4,338,420	-
Fund balance, end of year	\$ 4,293,420	\$ 4,228,363	\$ 4,619,287	\$ 390,924

Concluded

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

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Housing Commission Special Revenue Fund For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal sources	\$ 483,000	\$ 244,000	\$ 210,590	\$ (33,410)
Local sources	230,000	30,000	1,844	(28,156)
Interest and rentals	200	200	121	(79)
Other	106,800	103,250	61,483	(41,767)
Total revenues	820,000	377,450	274,038	(103,412)
Expenditures				
Community and economic development	882,648	327,619	252,115	(75,504)
Revenues over (under) expenditures	(62,648)	49,831	21,923	(27,908)
Other financing sources (uses)				
Transfers in	203,000	127,262	119,691	(7,571)
Transfers out	(150,000)	(178,850)	(120,277)	(58,573)
Total other financing sources (uses)	53,000	(51,588)	(586)	51,002
Net change in fund balance	(9,648)	(1,757)	21,337	23,094
Fund balance, beginning of year	130,281	130,281	130,281	-
Fund balance, end of year	\$ 120,633	\$ 128,524	\$ 151,618	\$ 23,094

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

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - M-TEC Special Revenue Fund
 For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ -	\$ 739,342	\$ 732,402	\$ (6,940)
Other	-	-	5,425	5,425
Total revenues	-	739,342	737,827	(1,515)
Expenditures				
Community and economic development	-	739,342	738,085	(1,257)
Net change in fund balance	-	-	(258)	(258)
Fund balance, beginning of year	380	380	380	-
Fund balance, end of year	\$ 380	\$ 380	\$ 122	\$ (258)

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

OTSEGO COUNTY, MICHIGAN

Statement of Net Position

Proprietary Funds
December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2016	Airport
Assets			
Current assets:			
Cash and cash equivalents	\$ 299,439	\$ 30,102	\$ 271,501
Investments	5,262,414	-	-
Taxes receivable	992,960	-	-
Interest receivable	147,419	-	-
Accounts receivable	324	25,719	34,635
Due from other governments	-	35,165	-
Due from other funds	300,000	-	-
Advances to other funds	90,000	-	-
Inventories	-	-	42,808
Prepays	-	-	69,780
Total current assets	<u>7,092,556</u>	<u>90,986</u>	<u>418,724</u>
Noncurrent assets:			
Capital assets not being depreciated	-	99,998	16,500
Capital assets being depreciated, net	-	493,350	6,754,150
Total noncurrent assets	<u>-</u>	<u>593,348</u>	<u>6,770,650</u>
Total assets	<u>7,092,556</u>	<u>684,334</u>	<u>7,189,374</u>
Deferred outflows of resources			
Deferred pension amounts	-	544,221	-
Liabilities			
Current liabilities:			
Accounts payable	29,044	8,831	41,360
Accrued liabilities	436	71,748	1,785
Due to other funds	-	30,000	-
Due to other governments	-	26,775	-
Total current liabilities	<u>29,480</u>	<u>137,354</u>	<u>43,145</u>
Noncurrent liabilities:			
Advances from other funds	-	-	42,954
Net pension liability	-	848,995	-
Total noncurrent liabilities	<u>-</u>	<u>848,995</u>	<u>42,954</u>
Total liabilities	<u>29,480</u>	<u>986,349</u>	<u>86,099</u>
Net position			
Investment in capital assets	-	593,348	6,770,650
Unrestricted (deficit)	7,063,076	(351,142)	332,625
Total net position	<u>\$ 7,063,076</u>	<u>\$ 242,206</u>	<u>\$ 7,103,275</u>

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



		Governmental
		Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 403,304	\$ 1,004,346	\$ 238,739
1,380,752	6,643,166	200,000
-	992,960	-
-	147,419	-
12,964	73,642	10,365
-	35,165	-
-	300,000	-
-	90,000	-
-	42,808	325
-	69,780	92,823
<u>1,797,020</u>	<u>9,399,286</u>	<u>542,252</u>
-	116,498	-
86,083	7,333,583	-
<u>86,083</u>	<u>7,450,081</u>	<u>-</u>
<u>1,883,103</u>	<u>16,849,367</u>	<u>542,252</u>
-	544,221	-
11,228	90,463	25,671
436	74,405	1,606
-	30,000	-
-	26,775	-
<u>11,664</u>	<u>221,643</u>	<u>27,277</u>
-	42,954	-
-	848,995	-
<u>-</u>	<u>891,949</u>	<u>-</u>
<u>11,664</u>	<u>1,113,592</u>	<u>27,277</u>
86,083	7,450,081	-
<u>1,785,356</u>	<u>8,829,915</u>	<u>514,975</u>
<u>\$ 1,871,439</u>	<u>\$ 16,279,996</u>	<u>\$ 514,975</u>

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2016	Airport
Operating revenues			
Charges for services	\$ 86,876	\$ 341,872	\$ 790,222
Interest and penalties	230,644	-	-
Local sources	-	-	-
Other	-	-	17,043
Total operating revenues	317,520	341,872	807,265
Operating expenses			
Salaries and fringes	55,509	1,450,700	133,946
Contractual services	121,867	-	149,784
Materials and supplies	5,938	-	562,685
Equipment repair and maintenance	-	-	-
Utilities	-	-	-
Depreciation	-	165,226	573,740
Other	21,597	338,841	104,030
Total operating expenses	204,911	1,954,767	1,524,185
Operating loss	112,609	(1,612,895)	(716,920)
Nonoperating revenues (expenses)			
State operating grants	-	618,595	1,650
Federal operating grants	-	318,587	18,530
Investment (loss) earnings	(342,857)	-	3,358
Property taxes levied	-	284,610	-
Other revenues	1,992	8,954	-
Total nonoperating revenues	(340,865)	1,230,746	23,538
Income (loss) before transfers	(228,256)	(382,149)	(693,382)
Transfers in	125	13,000	248,581
Transfers out	(420,480)	-	-
Change in net position	(648,611)	(369,149)	(444,801)
Net position, beginning of year	7,711,687	611,355	7,548,076
Net position, end of year	\$ 7,063,076	\$ 242,206	\$ 7,103,275

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

		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 297,296	\$ 1,516,266	\$ 2,227,245
-	230,644	-
5,000	5,000	-
-	17,043	-
<u>302,296</u>	<u>1,768,953</u>	<u>2,227,245</u>
55,914	1,696,069	1,823,127
124,780	396,431	242,424
52,228	620,851	6,513
-	-	33,397
-	-	195,468
12,300	751,266	-
97,625	562,093	12,642
<u>342,847</u>	<u>4,026,710</u>	<u>2,313,571</u>
<u>(40,551)</u>	<u>(2,257,757)</u>	<u>(86,326)</u>
-	620,245	-
-	337,117	-
27,564	(311,935)	5,038
-	284,610	-
287,026	297,972	-
<u>314,590</u>	<u>1,228,009</u>	<u>5,038</u>
<u>274,039</u>	<u>(1,029,748)</u>	<u>(81,288)</u>
17,125	278,831	870
(42,500)	(462,980)	-
248,664	(1,213,897)	(80,418)
<u>1,622,775</u>	<u>17,493,893</u>	<u>595,393</u>
<u>\$ 1,871,439</u>	<u>\$ 16,279,996</u>	<u>\$ 514,975</u>

OTSEGO COUNTY, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Fund	Bus System 9/30/2016	Airport
Cash flows from operating activities			
Cash received from customers	\$ 505,895	\$ 334,899	\$ 823,832
Cash received from interfund services	-	-	-
Cash payments for goods and services	(139,160)	(342,923)	(887,613)
Cash payments to employees	(55,714)	(1,293,506)	(130,562)
Net cash used in operating activities	311,021	(1,301,530)	(194,343)
Cash flows from noncapital financing activities			
State grants	-	706,525	1,650
Federal grants	-	298,243	18,530
Property tax	-	284,610	-
Other receipts	1,992	8,954	-
Repayment on advance from other funds	-	(145,000)	(10,412)
Receipts of amounts from advance from other funds	-	150,000	-
Transfers in	125	13,000	248,581
Transfers out	(420,480)	-	-
Net cash provided by (used in) noncapital financing activities	(418,363)	1,316,332	258,349
Cash flows from capital and related financing activities			
Purchase of capital assets	-	(8,047)	(29,330)
Cash flows from investing activities			
Proceeds from sale of investments	434,075	-	-
Purchases of investments	-	-	-
Interest received on investments	(342,857)	-	3,358
Net cash provided by (used in) investing activities	91,218	-	3,358
Net change in cash and cash equivalents	(16,124)	6,755	38,034
Cash and cash equivalents, beginning of year	315,563	23,347	233,467
Cash and cash equivalents, end of year	\$ 299,439	\$ 30,102	\$ 271,501

Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 296,517	\$ 1,961,143	\$ -
-	-	2,220,063
(323,281)	(1,692,977)	(477,426)
-	(1,479,782)	(1,899,904)
<u>(26,764)</u>	<u>(1,211,616)</u>	<u>(157,267)</u>
-	708,175	-
-	316,773	-
-	284,610	-
287,026	297,972	-
-	(155,412)	-
-	150,000	-
17,125	278,831	870
(42,500)	(462,980)	-
<u>261,651</u>	<u>1,417,969</u>	<u>870</u>
-	(37,377)	-
-	434,075	-
(434,445)	(434,445)	100,000
27,564	(311,935)	5,038
<u>(406,881)</u>	<u>(312,305)</u>	<u>105,038</u>
(171,994)	(143,329)	(51,359)
<u>575,298</u>	<u>1,147,675</u>	<u>290,098</u>
<u>\$ 403,304</u>	<u>\$ 1,004,346</u>	<u>\$ 238,739</u>

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Fund	Bus System 9/30/2016	Airport
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating loss	\$ 112,609	\$ (1,612,895)	\$ (716,920)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	165,226	573,740
Change in operating assets and liabilities that provided (used) cash:			
Taxes receivable	348,866	-	-
Interest receivable	15,245	-	-
Accounts receivable	59,672	(6,973)	16,567
Due from other funds	(145,408)	-	-
Advances to other funds	(90,000)	-	-
Prepays	-	-	(58,063)
Inventories	-	-	(13,604)
Accounts payable	10,242	(271)	5,145
Due to other funds	-	-	(4,592)
Net pension liability and related deferred amounts	-	153,383	-
Accrued liabilities	(205)	-	3,384
Unearned revenue	-	-	-
Net cash used in operating activities	<u>\$ 311,021</u>	<u>\$ (1,301,530)</u>	<u>\$ (194,343)</u>

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



Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ (40,551)	\$ (2,257,757)	\$ (86,326)
12,300	751,266	-
-	348,866	-
-	15,245	-
(5,279)	63,987	(5,391)
-	(145,408)	-
-	(90,000)	-
8,170	(49,893)	(77,177)
-	(13,604)	-
(699)	14,417	13,018
-	(4,592)	-
-	153,383	-
(205)	2,974	400
(500)	(500)	(1,791)
<u>\$ (26,764)</u>	<u>\$ (1,211,616)</u>	<u>\$ (157,267)</u>
		Concluded

OTSEGO COUNTY, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds
December 31, 2016

	Agency Funds
Assets	
Cash and cash equivalents	<u>\$ 1,674,210</u>
Liabilities	
Undistributed tax collections	751,336
Bonds, restitutions, and payables to others	<u>922,874</u>
Total liabilities	<u>\$ 1,674,210</u>

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

OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position
Discretely Presented Component Units
December 31, 2016

	Road Commission	Ambulance Corporation	University Center	Commission on Aging 9/30/2016	Sportsplex	Total
Assets						
Cash and cash equivalents	\$ 2,108,554	\$ 1,504	\$ 569,728	\$ 731,288	\$ 89,404	\$ 3,500,478
Investments	-	-	498,475	-	-	498,475
Receivables, net:						
Accounts	1,286,494	778,000	11,568	15,709	31,103	2,122,874
Taxes	993,269	463,096	644,747	-	289,420	2,390,532
Inventories	714,181	-	-	1,754	15,437	731,372
Prepays	-	-	-	1,242	-	1,242
Capital assets not being depreciated	9,895,950	-	-	-	-	9,895,950
Capital assets being depreciated, net	22,573,036	1,784,735	144,896	-	-	24,502,667
Total assets	37,571,484	3,027,335	1,869,414	749,993	425,364	43,643,590
Deferred outflows of resources						
Deferred pension amounts	614,471	-	-	-	-	614,471
Liabilities						
Accounts payable	727,012	55,276	103	48,814	3,462	834,667
Accrued liabilities	108,858	5,407	-	-	-	114,265
Due to other governments	652	-	-	-	-	652
Advances from government units	309,691	-	-	-	-	309,691
Due to primary government	-	-	-	-	-	-
Unearned revenue	-	-	-	-	32,399	32,399
Advances from primary government	-	255,240	-	-	-	255,240
Long-term liabilities:						
Due within one year	387,890	-	-	-	-	387,890
Due in more than one year	1,719,670	-	-	-	-	1,719,670
Net pension liability	5,125,023	-	-	-	-	5,125,023
Net other postemployment benefits obligation	8,430,330	-	-	-	-	8,430,330
Total liabilities	16,809,126	315,923	103	48,814	35,861	17,209,827
Deferred inflows of resources						
Taxes levied for a subsequent period	993,269	463,096	664,220	-	289,420	2,410,005
Other state grants	85,108	-	-	-	-	85,108
Total deferred inflows	1,078,377	463,096	664,220	-	289,420	2,495,113
Net position						
Net investment in capital assets	30,585,315	1,784,735	144,896	-	-	32,514,946
Restricted	-	-	343,145	44,000	-	387,145
Unrestricted (deficit)	(10,286,863)	463,581	717,050	657,179	100,083	(8,348,970)
Total net position	\$ 20,298,452	\$ 2,248,316	\$ 1,205,091	\$ 701,179	\$ 100,083	\$ 24,553,121

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

OTSEGO COUNTY, MICHIGAN

Combining Statement of Activities
Discretely Presented Component Units
For the Year Ended December 31, 2016

	Road Commission	Ambulance Corporation	University Center	Commission on Aging 9/30/2016	Sportsplex	Total
Expenses						
Road commission	\$ 7,565,508	\$ -	\$ -	\$ -	\$ -	\$ 7,565,508
Ambulance corporation	-	2,036,432	-	-	-	2,036,432
University center	-	-	765,666	-	-	765,666
Commission on aging 9/30/2016	-	-	-	1,794,515	-	1,794,515
Sportsplex	-	-	-	-	849,627	849,627
Total expenses	7,565,508	2,036,432	765,666	1,794,515	849,627	13,011,748
Program revenues						
Charges for services	2,472,303	1,712,331	-	55,556	574,313	4,814,503
Operating grants and contributions	2,289,538	-	-	439,332	-	2,728,870
Capital grants and contributions	3,502,037	-	-	-	3,000	3,505,037
Total program revenues	8,263,878	1,712,331	-	494,888	577,313	11,048,410
Net revenue (expense)	698,370	(324,101)	(765,666)	(1,299,627)	(272,314)	(1,963,338)
General revenues						
Property taxes	-	457,589	630,439	1,138,592	285,071	2,511,691
Investment earnings	-	974	9,792	1,836	2,963	15,565
Gain on sale of capital assets	54,652	-	-	-	-	54,652
Other	956,742	31,000	233,432	84,689	18,627	1,324,490
Total general revenues	1,011,394	489,563	873,663	1,225,117	306,661	3,906,398
Change in net position	1,709,764	165,462	107,997	(74,510)	34,347	1,943,060
Net position, beginning of year	18,588,688	2,082,854	1,097,094	775,689	65,736	22,610,061
Net position, end of year	\$ 20,298,452	\$ 2,248,316	\$ 1,205,091	\$ 701,179	\$ 100,083	\$ 24,553,121

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

NOTES TO FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting policies are described below.

Reporting Entity

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

Blended Component Units

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

Discretely Presented Component Units

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

Otsego County University Center (the "Facility") - On December 7, 1999, the electors of Otsego County 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 Facility for use by the residents of the County and the public. On July 1, 2000, Otsego County entered into an agreement for operating and maintaining the facility with The University Center at Gaylord, a Michigan nonprofit corporation organized on November 3, 1989 pursuant to the provisions of Act 162, Public Acts of 1982, as amended. The University Center at Gaylord 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, requires the Facility to submit by October 1st annually a proposed budget for the operation of the Facility for the subsequent fiscal year beginning January 1st. Prior to December 31st each year, the County Board of Commissioners shall either approve the final budget as submitted for the operation of the facility or reject the budget setting forth reasons why it was not approved. Once approved, the County Board of Commissioners shall approve a resolution authorizing the levy of such amount of the millage. The Facility's taxes are levied under the taxing authority of the County and are included as part of the County's total tax levy reported in the Otsego County University Center Fund.

Otsego County Commission on Aging (the "Commission") - The Commission is legally separable and administered by an advisory Board of Directors (the "Board") with twelve members. The Commission may not issue debt and the tax levy is subject to the County Board of Commissioners' approval. The Commission's taxes are levied under the taxing authority of the County, as approved by the County electors, and is included as part of the County's total tax levy as well as reported in the Commission on Aging Fund.

Otsego County Sportsplex (the "Sportsplex") - The Sportsplex, a nonprofit corporation that was established pursuant to the provisions of Public Act 162 of 1982, has an agreement with Otsego County to operate and maintain a recreational and sports complex for Otsego County. The agreement was amended on December 15, 2015 and expires on December 15, 2020. The sports complex was constructed during 1995 and opened in early 1996. The Sportsplex is operated by a Board of Directors, which consist of between seven and fifteen members. Members recommended by the Sportsplex Board of Directors and forwarded to the County Board of Commissioners for review and approval. The Sportsplex may not issue debt without the County's approval and the tax levy is subject to the County Board of Commissioners' approval. The Sportsplex taxes are levied under the taxing authority of the County, as approved by the County electors and are included as part of the County's total tax levy recorded in the County's Sportsplex Fund. The County Board of Commissioners also approves the budget and fee charges. Although this is a nonprofit corporation, the activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a component unit in this report.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Component Unit Financial Statements

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

Administrative Offices

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, MI 49735

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

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

Otsego County University Center
80 Livingston Boulevard
Gaylord, MI 49735

Otsego County Commission on Aging
120 Grandview Boulevard
Gaylord, MI 49735

Joint Ventures

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

Northwest Michigan Community Health Agency (the "Health Agency") - The Health Agency provides health service for residents of Otsego County. The Counties of Otsego, Antrim, Emmet, and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the financial statements of Charlevoix County. The funding formula, approved by the member Counties, is based on a pro rata amount based on each unit's population and equalized valuation to the member Counties total population and valuation. Member Counties' percentages of the net operation budget for the year 2016 were as follows:

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

Otsego County's appropriation to the Health Agency recorded in the General fund in 2016 was \$195,909.

Michigan Technical Education Center - Kirtland Community College, a community college district established pursuant to the provisions of Public Act 331 of 1996, obtained funding through the Michigan Economic Development Corporation ("MEDC") to construct and equip Michigan Technical Education Center ("M-TEC"), an educational facility in Otsego County. On December 7, 1999, the electors of the County authorized a tax levy not to exceed .56 mills for a period of twenty years for the purpose of generating funds to operate the facility. The facility provides vocational, technical, job skills, or workforce development programs and services. Pursuant to the operating agreement, Kirtland established an advisory board (which includes representatives of the County) and is to report its preliminary, final, and amended M-TEC budgets to the County's board. Financial records for M-TEC are recorded and maintained by the Kirtland Community College and are audited separately.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

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

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The Otsego County 2016 local match, recorded in the General fund, was \$94,003.

Component Unit and Enterprise Fund with Different Fiscal Year Ends

The financial information presented in this report is for the year ended December 31, 2016, except for the following component unit and enterprise fund:

Fund	Fund Presentation	Fiscal Year End
Commission on Aging	Component Unit	September 30, 2016
Bus System	Enterprise Fund	September 30, 2016

Government-Wide and Fund Financial Statements

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

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The County reports the following major governmental funds:

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

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

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

The *Public Improvements Capital Project Fund* accounts for projects that maintain or improve the County's infrastructure.

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

The County reports the following major proprietary funds:

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

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

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

Additionally, the County reports the following fund types:

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

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

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

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

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

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

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, amounts in demand deposit accounts and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is allocated to each fund based on the average cash balance.

State statutes authorize the County to invest in:

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

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

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

Bankers' acceptances of United States banks.

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

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

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

Receivables and Payables

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

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

The accounts receivable for the Ambulance Corporation component unit is presented net of allowance for doubtful accounts of \$1,552,000.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Other Assets

Inventories are valued at cost, using the consumption method. Inventories of governmental and enterprise funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are stated at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at their estimated acquisition cost as of the date of donation.

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

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

	Years
Buildings	40
Bus operating facility	12-20
Shop equipment and furniture	3-10
Vehicles	3-7
Equipment	3-10
Infrastructure	20

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Road Commission - Discretely Presented Component Unit

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

	Years
Buildings	30-50
Road equipment	5-8
Shop equipment	10
Engineering equipment	3-10
Office equipment	4-10
Infrastructure - roads	8-30
Infrastructure - bridges	12-50

Deferred Outflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County reports deferred outflows of resources related to the net pension liability.

Accrued Compensated Absences (Vacation and Sick Leave)

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

Long-Term Obligations

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Deferred Inflows of Resources

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

Fund Balances

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

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

Budget Stabilization Arrangement

The Otsego County Board of Commissioners has established a Budget Stabilization arrangement for the following purposes: to preserve current levels of services provided by the County's general fund, to cover potential general fund deficits, to cover potential expenses arising due to a natural disaster, and to assist with the County's cash flow during the fiscal year, in accordance with Public Act 30 of 1978. The Board appropriates funds as available and as deemed necessary during the budget process. Unassigned fund balance of the general fund includes \$1,485,187 related to this stabilization arrangement.

Interfund Transactions

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Unearned Revenues

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

Grants and other Intergovernmental Revenues

Federal grants and assistance awards for all governmental type funds are recorded as federal sources in accordance with the terms of the representative grants.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates of the County include management's estimate of the useful lives of depreciable capital assets, management's estimate of the accrued compensated absences, management's estimate of the allowance for uncollectible receivable balances and the assumptions used in the actuarial valuations of the pension and other postemployment benefit plans. The County utilizes various investment instruments which are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

2. BUDGETARY INFORMATION

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

1. Each December, after receiving input from the individual departments, Administration and the County Budget and Finance Committee prepare a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through a resolution passed by the Board of Commissioners.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

4. Budgetary control is exercised at the departmental level of the General Fund and special revenue funds. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
5. The budget and approved appropriations lapse at the end of the fiscal year.
6. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

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

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

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

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

3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the County were adopted on the departmental level basis for the General Fund and all special revenue funds, which is the legal level of control. During the year ended December 31, 2016 the County had motorcycle safety and education expenditures in the General Fund which were in excess of the amounts budgeted by \$5,735 and principal expenditures in the General Fund which were in excess of the amounts budgeted by \$9,511.

4. DEFICIT FUND BALANCE

The Bus System enterprise fund, and the Road Commission discretely presented component unit reported a deficit unrestricted net position of \$351,142 at September 30, 2016 and \$10,286,863 at December 31, 2016, respectively.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

5. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2016:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 8,672,660	\$ 3,500,478	\$ 12,173,138
Investments	10,931,332	498,475	11,429,807
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents	1,674,210	-	1,674,210
Total	\$ 21,278,202	\$ 3,998,953	\$ 25,277,155
Deposits and investments			
Bank deposits:			
Checking and savings accounts			\$ 13,838,076
Pooled certificates of deposit:			
Due within one year			1,555,000
Due within six to ten years			1,181,047
U.S. agencies			8,693,760
Cash on hand			9,272
Total			\$ 25,277,155

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the County's deposits might not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, \$9,864,867 of the County's bank balance of \$11,614,867 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of the investments or collateral securities that are in possession of an outside party. The County does not have a policy for investment custodial credit risk. As of year-end, \$2,305,000 of the County's certificates of deposit was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Investments	Credit Rating	Fair Value
U.S. Government agencies	AA+	\$ 8,690,358
Equity in wholly owned subsidiary	Not rated	<u>3,402</u>
Total		<u>\$ 8,693,760</u>

The University Center at Gaylord owns 100% equity in the University Center - Advertising. For purposes of the financial statements, it is classified as an investment.

Concentration of credit risk. The County's investment policy places no limit on the amount the County may invest in any one issuer. At December 31, 2016, the County had 76% of its investments in U.S. Government Agencies. The remaining 24% of the County's investments consists of certificates of deposit with an original maturity greater than 90 days, of which more than 5% are held in two financial institutions which consist of 14% and 9% respectively of the County's total investments.

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

Investment Maturities (Fair Value)	
Investment Type	More than 10 years
U.S. Government agencies	<u>\$ 8,690,358</u>

Fair Value Measurement

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The County had the following recurring fair value measurements as of year end:

Investment Type	Level 1	Level 2	Level 3	Total
Fixed income:				
Debt securities:				
US government bonds	\$ -	\$ 8,690,358	\$ -	\$ 8,690,358
Other	-	-	3,402	3,402
Total investments at fair value	<u>\$ -</u>	<u>\$ 8,690,358</u>	<u>\$ 3,402</u>	<u>\$ 8,693,760</u>

The following is a description of the valuation methodology used for assets recorded at fair value. There have been no changes from the prior year in the methodologies used.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Equity and other securities are classified as Level 1 of the fair value hierarchy are valued based on quoted market prices in active markets.

Debt securities classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Equity in a wholly owned subsidiary is classified as Level 3 of the fair value hierarchy based on unobservable inputs.

6. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	\$ 281,959	\$ 73,642	\$ 3,674,874
Less: Allowance for uncollectible accounts	-	-	(1,552,000)
Property taxes	2,950,741	992,960	2,390,532
Due from other governments	432,257	35,165	-
Loans	1,867,848	-	-
Interest	-	147,419	-
Totals	\$ 5,532,805	\$ 1,249,186	\$ 4,513,406

Loans receivable - Housing Commission Special Revenue Fund

The amount recorded as loans receivable represent long-term mortgage notes in the Housing Commission Special Revenue Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0% to 3.5% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred inflows of resources. Revenue is recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation, or rehabilitation of residential buildings. At December 31, 2016, the total amount of outstanding loans was \$1,867,848. The County estimates that of the amounts due in 2017, \$163,680 will not be collected.

Lease receivable - Road Commission Discretely Presented Component Unit

The amount recorded as the lease receivable from component unit represents amounts payable to the County primary government from the Road Commission a discretely presented component unit. The lease receivable relates to an agreement between the County and the Road Commission that requires the Road Commission to make payments sufficient to allow the County to pay the principal and interest on the Otsego County Building Authority Series 2011 bonds as they become due (Note 10).

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 384,986	\$ 90,463	\$ 834,667
Accrued liabilities	58,651	74,405	114,265
Due to other governments	109,323	26,775	652
Accrued interest on long-term debt	20,467	-	-
Totals	\$ 573,427	\$ 191,643	\$ 949,584

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2016, was as follows:

Due to and from primary government funds

	Due from Other Funds	Due to Other Funds
Housing Commission fund	\$ -	\$ 120,000
Delinquent Tax Revolving fund	300,000	-
Bus system	-	30,000
Timing difference	-	150,000
	<u>\$ 300,000</u>	<u>\$ 300,000</u>

The timing difference above in the amount of \$150,000, is a result of the Bus System Enterprise Fund having a fiscal year-end that is different from the County's year-end.

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Interfund advances - primary government

	Advance to Other Funds	Advance From Other Funds
Public Improvement Fund	\$ 75,707	\$ -
Nonmajor governmental funds	-	32,753
Airport	-	42,954
	<u>\$ 75,707</u>	<u>\$ 75,707</u>

Advances to and from component units

	Advance to Component Unit	Advance From Component Unit
Public Improvement Fund	\$ 165,240	\$ -
Delinquent Tax Revolving Fund	90,000	-
Ambulance	-	255,240
	<u>\$ 255,240</u>	<u>\$ 255,240</u>

For the year ended December 31, 2016, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 33,280	\$ 974,167
Housing Commission	119,691	120,277
Public Improvements	-	-
Nonmajor governmental funds	1,162,202	37,450
Delinquent Tax Fund	125	420,480
Airport	248,581	-
Bus System	13,000	-
Nonmajor enterprise funds	17,125	42,500
Internal service funds	870	-
	<u>\$ 1,594,874</u>	<u>\$ 1,594,874</u>

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

9. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,836,067	\$ 99,165	\$ -	\$ 291,906	\$ 2,227,138
Construction in progress	365,100	129,248	-	(347,481)	146,867
Total capital assets not being depreciated, net	2,201,167	228,413	-	(55,575)	2,374,005
Capital assets, being depreciated:					
Buildings	15,628,905	217,323	-	-	15,846,228
Furniture and fixtures	514,550	10,980	-	-	525,530
Equipment:					-
Data handling	1,330,464	144,832	(115,013)	-	1,360,283
Other equipment	2,180,487	199,295	(46,237)	55,575	2,389,120
Vehicles	1,447,688	114,607	(22,925)	-	1,539,370
Infrastructure	37,130	-	-	-	37,130
	21,139,224	687,037	(184,175)	55,575	21,697,661
Less accumulated depreciation for:					
Buildings	(9,816,024)	(536,510)	-	-	(10,352,534)
Furniture and fixtures	(392,505)	(42,138)	-	-	(434,643)
Equipment:					-
Data handling	(1,164,125)	(59,500)	110,149	-	(1,113,476)
Other equipment	(957,773)	(76,798)	46,237	-	(988,334)
Vehicles	(1,253,267)	(83,761)	22,923	-	(1,314,105)
Infrastructure	(12,975)	(1,997)	-	-	(14,972)
	(13,596,669)	(800,704)	179,309	-	(14,218,064)
Total capital assets being depreciated, net	7,542,555	(113,667)	(4,866)	55,575	7,479,597
Governmental activities capital assets, net	\$ 9,743,722	\$ 114,746	\$ (4,866)	\$ -	\$ 9,853,602

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 99,998	\$ -	\$ -	\$ -	\$ 99,998
Construction in progress	219,670	16,500	-	(219,670)	16,500
Total capital assets not being depreciated, net	<u>319,668</u>	<u>16,500</u>	<u>-</u>	<u>(219,670)</u>	<u>116,498</u>
Capital assets, being depreciated:					
Buildings	2,641,858	-	-	-	2,641,858
Furniture and fixtures	6,000	-	-	-	6,000
Vehicles	1,691,045	-	-	-	1,691,045
Equipment	317,370	15,547	-	-	332,917
Infrastructure	12,288,302	5,330	-	219,670	12,513,302
	<u>16,944,575</u>	<u>20,877</u>	<u>-</u>	<u>219,670</u>	<u>17,185,122</u>
Less accumulated depreciation for:					
Buildings	(1,108,000)	(105,501)	-	-	(1,213,501)
Furniture and fixtures	(6,000)	-	-	-	(6,000)
Vehicles	(1,340,306)	(127,170)	-	-	(1,467,476)
Equipment	(211,987)	(14,301)	-	-	(226,288)
Infrastructure	(6,433,980)	(504,294)	-	-	(6,938,274)
	<u>(9,100,273)</u>	<u>(751,266)</u>	<u>-</u>	<u>-</u>	<u>(9,851,539)</u>
Total capital assets being depreciated, net	<u>7,844,302</u>	<u>(510,720)</u>	<u>-</u>	<u>-</u>	<u>7,333,583</u>
Business-type activities capital assets, net	<u>\$ 8,163,970</u>	<u>\$ (494,220)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,450,081</u>

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

Depreciation of governmental activities by function	
General government	\$ 327,658
Public safety	164,087
Recreation and culture	<u>308,959</u>
Total depreciation expense - governmental activities	<u>\$ 800,704</u>
Depreciation of business-type activities by function	
Bus System 9/30/2016	\$ 165,226
Airport	573,740
University Center Metropolitan Area Network	<u>12,300</u>
Total depreciation expense - business-type activities	<u>\$ 751,266</u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Discretely presented component units

Capital assets activity for the discretely presented component units for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Disposals/ Adjustments	Ending Balance
Component Unit - Road Commission				
Capital assets, not being depreciated:				
Land and improvements	\$ 9,263,228	\$ 632,722	\$ -	\$ 9,895,950
Capital assets, being depreciated:				
Buildings	3,934,836	-	-	3,934,836
Road equipment	6,345,386	885,573	(587,488)	6,643,471
Shop equipment	108,683	-	-	108,683
Office equipment	60,038	2,150	(11,158)	51,030
Engineer's equipment	13,562	-	-	13,562
Yard and storage equipment	1,800	-	-	1,800
Traffic signals	49,557	-	-	49,557
Infrastructure - bridges	1,112,301	-	-	1,112,301
Infrastructure - roads	32,503,421	2,869,315	-	35,372,736
	<u>44,129,584</u>	<u>3,757,038</u>	<u>(598,646)</u>	<u>47,287,976</u>
Less accumulated depreciation for:				
Buildings	(1,724,274)	(87,460)	-	(1,811,734)
Road equipment	(5,445,932)	(499,718)	587,376	(5,358,274)
Shop equipment	(94,460)	(4,540)	-	(99,000)
Office equipment	(49,552)	(4,803)	11,158	(43,197)
Engineer's equipment	(12,788)	(465)	-	(13,253)
Yard and storage equipment	(1,800)	-	-	(1,800)
Traffic signals	(40,542)	(3,153)	-	(43,695)
Infrastructure - bridges	(247,430)	(28,840)	-	(276,270)
Infrastructure - roads	(15,438,381)	(1,629,336)	-	(17,067,717)
	<u>(23,055,159)</u>	<u>(2,258,315)</u>	<u>598,534</u>	<u>(24,714,940)</u>
Total capital assets being depreciated, net	<u>21,074,425</u>	<u>1,498,723</u>	<u>(112)</u>	<u>22,573,036</u>
Road Commission capital assets, net	<u>\$ 30,337,653</u>	<u>\$ 2,131,445</u>	<u>\$ (112)</u>	<u>\$ 32,468,986</u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Component Unit - Otsego County Ambulance Corporation					
Capital assets, not being depreciated:					
Construction in progress	\$ 755,726	\$ -	\$ -	\$ (755,726)	\$ -
Capital assets being depreciated:					
Buildings	725,000	119,818	-	755,726	1,600,544
Other equipment	613,746	20,499	-	-	634,245
Vehicles	1,876,854	171,021	-	-	2,047,875
	<u>3,215,600</u>	<u>311,338</u>	<u>-</u>	<u>755,726</u>	<u>4,282,664</u>
Less accumulated depreciation for:					
Buildings	(551,000)	(64,022)	-	-	(615,022)
Other equipment	(523,492)	(21,982)	-	-	(545,474)
Vehicles	(1,191,545)	(145,888)	-	-	(1,337,433)
	<u>(2,266,037)</u>	<u>(231,892)</u>	<u>-</u>	<u>-</u>	<u>(2,497,929)</u>
Total capital assets being depreciated, net	<u>949,563</u>	<u>79,446</u>	<u>-</u>	<u>-</u>	<u>1,784,735</u>
Otsego County Ambulance Corp capital assets, net	<u>\$ 1,705,289</u>	<u>\$ 79,446</u>	<u>\$ -</u>	<u>\$ (755,726)</u>	<u>\$ 1,784,735</u>
Component Unit - Otsego County University Center					
Capital assets being depreciated:					
Buildings	\$ 144,125	\$ -	\$ -	\$ -	\$ 144,125
Leasehold improvements	24,854	-	-	-	24,854
Furniture and fixtures	323,707	-	-	-	323,707
Data handling equipment	542,300	16,278	-	-	558,578
	<u>1,034,986</u>	<u>16,278</u>	<u>-</u>	<u>-</u>	<u>1,051,264</u>
Less accumulated depreciation for:					
Buildings	(64,502)	(10,575)	-	-	(75,077)
Leasehold improvements	(24,854)	-	-	-	(24,854)
Furniture and fixtures	(260,013)	(14,869)	-	-	(274,882)
Data handling equipment	(507,284)	(24,271)	-	-	(531,555)
	<u>(856,653)</u>	<u>(49,715)</u>	<u>-</u>	<u>-</u>	<u>(906,368)</u>
Otsego County University Center capital assets, net	<u>\$ 178,333</u>	<u>\$ (33,437)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,896</u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Component Unit - Otsego County Commission on Aging					
Capital assets being depreciated:					
Leasehold improvements and equipment	\$ 140,189	\$ -	\$ -	\$ -	\$ 140,189
Less accumulated depreciation for:					
Leasehold improvements and equipment	(140,189)	-	-	-	(140,189)
Otsego County Commission on Aging capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

10. LONG-TERM DEBT

Changes in Long-term Debt. Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
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%.	\$ 1,085,000	\$ -	\$ 205,000	\$ 880,000	\$ 200,000
Otsego County Building Authority Series 2011 Bonds, issued on behalf of Otsego County Road Commission, maturing serially through 2031 in annual amounts ranging from \$35,000 to \$65,000 and at interest rates from 3.25% to 5.0%.	760,000	-	35,000	725,000	35,000
Otsego County Brownfield Redevelopment Authority loan, maturing through 2024 with payments ranging from \$47,472 to \$48,184 and interest at 1.5%.	393,340	-	161,828	231,512	27,454

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Equipment purchase agreement through fiscal year 2019 requiring monthly payments of \$952 including interest at .44% secured by the related equipment.	\$ 40,312	\$ -	\$ 9,511	\$ 30,801	\$ 10,029
Total installment debt	2,278,652	-	411,339	1,867,313	272,483
Accrued compensated absences	192,438	418,872	439,853	171,457	-
Total governmental activities	<u>\$ 2,471,090</u>	<u>\$ 418,872</u>	<u>\$ 851,192</u>	<u>\$ 2,038,770</u>	<u>\$ 272,483</u>

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

Year Ended December 31,	Bonds Payable		Installments Payable	
	Principal	Interest	Principal	Interest
2017	\$ 262,454	\$ 66,386	\$ 10,029	\$ 1,394
2018	282,865	56,349	10,574	848
2019	288,283	45,818	10,198	273
2020	308,708	34,794	-	-
2021	69,138	28,113	-	-
2022-2026	325,063	104,829	-	-
2027-2031	300,001	39,000	-	-
	<u>\$ 1,836,512</u>	<u>\$ 375,289</u>	<u>\$ 30,801</u>	<u>\$ 2,515</u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Discretely Presented Component Units					
<i>Road Commission</i>					
Lease payable to the County in amounts sufficient to allow the County to pay the principal and interest on the Otsego County Building Authority Series 2011 bonds as they become due, maturing serially through 2031 in annual amounts ranging from \$35,000 to \$65,000 and at interest rates from 3.25% to 5.0%.	\$ 760,000	\$ -	\$ 35,000	\$ 725,000	\$ 35,000
Installment purchase agreements	956,701	547,866	345,896	1,158,671	352,890
Total installment debt	1,716,701	547,866	380,896	1,883,671	387,890
Accrued compensated absences (1)	218,807	5,082	-	223,889	-
Total road commission component unit	\$ 1,935,508	\$ 552,948	\$ 380,896	\$ 2,107,560	\$ 387,890

(1) Net increase.

Ambulance Corporation

Installment purchase agreement for medical equipment from Phillips Medical, due in repaid during 2016.	\$ 7,134	\$ -	\$ 7,134	\$ -	\$ -
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OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

Year Ended December 31,	Lease Payable		Installments Payable	
	Principal	Interest	Principal	Interest
2017	\$ 35,000	\$ 31,713	\$ 352,890	\$ 21,099
2018	35,000	30,488	343,601	15,498
2019	40,000	29,175	201,383	9,487
2020	40,000	27,775	260,797	1,849
2021	40,000	26,325	-	-
2022-2026	235,000	102,112	-	-
2027-2031	300,000	39,000	-	-
	<u>\$ 725,000</u>	<u>\$ 286,588</u>	<u>\$ 1,158,671</u>	<u>\$ 47,933</u>

11. ACCRUED COMPENSATED ABSENCES

Primary Government

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

Vested Employee Benefits Payable - Bus System (Enterprise Fund)

Vacation leave is accrued every pay period. Employees can accumulate a maximum of their base at any given time. Personal leave is earned at the beginning of the calendar year at a rate of 56 hours per full-time employee and 35 hours per part-time employee per year. Personal leave is paid out for up to 28 hours for full time employees and 17.5 hours for part-time employees. Compensated absences amounted to \$37,620 at December 31, 2016.

12. OPERATING LEASES

Lease Commitments - Commission on Aging Discretely Presented Component Unit

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

13. RISK MANAGEMENT

Primary Government

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

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

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

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2016, the balance of the County's member retention was \$322,492.

Changes in the balances of claims liabilities are as follows:

	Fiscal Year Ended December	
	2016	2015
Estimated liability, beginning of year	\$ -	\$ 51,456
Receipts	74,430	71,997
Estimated claims incurred	(55,111)	(96,345)
Claim payments	(1,888)	(27,108)
	<u>17,431</u>	<u>-</u>
Estimated liability, end of year	\$ 17,431	\$ -

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Coverage	Self-Insured Retention
Liability	\$75,000
Vehicle Physical Damage	\$15,000 per vehicle
\$1,000 Member Deductible	\$30,000 per occurrence
Property and crime	
\$1,000 deductible per occurrence	10% of the next \$100,00
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, 2016 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

Component Unit - Road Commission

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

There are nonaccident liability and condemnation lawsuits sometimes pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Component Unit - Ambulance Corporation

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

At December 31, 2016, there were no claims that exceeded insurance coverage. The Ambulance Corporation did not have any significant reduction in insurance coverage from previous years.

Component Unit - Commission on Aging

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

Component Unit - Sportsplex

The Sportsplex is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Health insurance and workers' compensation is obtained through commercial insurance providers.

At December 31, 2016, there were no claims that exceeded insurance coverage. The Sportsplex did not have any significant reduction in insurance coverage from previous years.

14. PROPERTY TAXES

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

Although the County of Otsego 2015 ad valorem tax is levied and collectible on December 1, 2015 and the 2016 ad valorem tax is levied and collectible on July 1, 2016, it is the County of Otsego's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax revolving funds within one year.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

The December 1, 2016 taxable valuation of the County of Otsego totaled \$1,152,385,044, on which ad valorem taxes were levied as follows:

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

The July 1, 2016 taxable valuation of the County of Otsego totaled \$1,152,384,044, on which ad valorem taxes levied consisted of 4.0502 mills for the General Fund, this amount is recognized in the General Fund.

15. TAX ABATEMENTS

Industrial Facilities Exemption

Municipalities within the County's boundaries entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, known as the Industrial Facilities Exemption (IFT) PA 198 of 1974, as amended. The purpose of the exemption is to provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. IFT on such properties have resulted in an abatement of property taxes which reduced the property taxes collected by Otsego County and its component units as follows:

City of Gaylord Tax Abatements

For the year ended December 31, 2016, Otsego County property taxes were reduced by \$25,275 under this program.

Bagley Township Tax Abatements

For the year ended December 31, 2016, Otsego County property taxes were reduced by \$19,837 under this program.

Corwith Township Tax Abatements

For the year ended December 31, 2016, Otsego County property taxes were reduced by \$4,569 under this program.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Commercial Facilities Exemption

Municipalities within the County's boundaries entered into property tax abatement agreements with local businesses under the Commercial Redevelopment Act, known as the Commercial Facilities Exemption (CFT) PA 255 of 1978, as amended. The purpose of the exemption is to provide a tax incentive to businesses to establish themselves in the designated commercial redevelopment district. CFT on such properties have resulted in an abatement of property taxes which reduced the property taxes collected by Otsego County and its component units as follows:

City of Gaylord Tax Abatements

For the year ended December 31, 2016, Otsego County property taxes were reduced by \$5,956 under this program.

Brownfield Redevelopment Financing

Municipalities within the County's boundaries entered into property tax abatement agreements with local businesses under the Brownfield Redevelopment Financing Act, PA 381 of 1996, as amended. The purpose of the exemption is to provide a tax incentive to businesses to establish themselves in a Brownfield Redevelopment Zone to promote the revitalization, redevelopment, and reuse of certain property that had been deemed obsolete due to blight, environmental matters, or being tax reverted. The cost to clean up the property to make it usable was initially paid for by the State of Michigan under the Brownfield provisions, creating a loan to be repaid over a 20-year period. Once the property sold, the owner's taxes were abated to be used toward loan repayment, which reduced the property taxes collected by Otsego County and its component units as follows:

City of Gaylord Tax Abatements

For the year ended December 31, 2016, Otsego County property taxes were reduced by \$2,580 under this program.

16. CONTINGENT LIABILITIES

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

17. BENEFIT PLANS

Primary Government

Defined Benefit Pension Plan

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

The service requirement for General Non-union, POAM, Teamsters Local #214 and 46th Circuit Court is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC-5), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors and the Sheriff-POLC Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC-5), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2015.

Benefits Provided. Pension benefits vary by division and are calculated as final average compensation (based on a 5 years and 3 years for defined benefit and hybrid divisions, respectively) and a multiplier ranging from 1.25% to 2.50%. Participants are fully vested in the plan after 8-10 years for defined benefit divisions and 6 years for hybrid divisions. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. Member contributions range from 0% to 4% of covered wages as presented in the table below.

Employees Covered by Benefit Terms. At December 31, 2015, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	97
Inactive employees entitled to but not yet receiving benefits	45
Active employees	<u>110</u>
Total membership	<u><u>252</u></u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Contributions. The County is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions are expressed as a percentage of payroll for open divisions and as a fixed monthly amount for closed divisions as summarized in the following table:

Division Name	Division Name	Status	Employer Contribution Rate	Employee Contribution Rate
General Non Union	Defined Benefit	Closed	\$ 3,983	0%
Library Non Union	Defined Benefit	Open	10.22%	0%
General Local 214 Bus	Defined Benefit	Closed	\$ 4,547	0%
Police Officers Association of Michigan	Defined Benefit	Closed	\$ 2,485	0%
Elected Appointed Supervisors	Defined Benefit	Closed	\$ 17,836	0%
46th Trial Court	Defined Benefit	Closed	\$ 6,833	0%
General Local 214 Clerical	Defined Benefit	Closed	\$ 3,584	0%
87-A Judge/Friend of Court pre 9/1/14	Defined Benefit	Closed	\$ 1,692	0%
Sheriff Union	Defined Benefit	Closed	\$ 7,788	0%
Sheriff Union new hires after 6/1/10	Defined Benefit	Open	7.33%	4%
Library Director	Defined Benefit	Open	4.76%	0%
Elected Appointed Supervisors after 1/1/09	Hybrid	Open	7.17%	0%
General Non Union after 1/1/09	Hybrid	Open	6.67%	0%
Police Officers Association of Michigan hired after 1/1/11	Hybrid	Open	6.18%	0%
46th Trial Court hired after 6/1/11	Hybrid	Open	5.68%	0%
Clerical Local #214 after 1/1/12	Hybrid	Open	6.23%	0%
Teamsters Bus hired after 1/1/11	Hybrid	Open	6.19%	0%

Net Pension Liability. The County's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study of 2009-2013. The main assumption and method changes in the most recent actuarial valuation included an adjustment to the mortality table to reflect longer lifetimes, the assumed annual rate of return, net of all expenses, was lowered from 8.0% to 7.75%, and the asset smoothing was changed from 10 to 5 years.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.53%
Diversifying strategies	10.00%	6.56%	0.64%
	<u>100.00%</u>		
Inflation			3.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.25%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pensions plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Change in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2014	\$ 19,092,334	\$ 13,160,140	\$ 5,932,194
Changes for the year:			
Service cost	348,000	-	348,000
Interest	1,543,901	-	1,543,901
Differences between expected and actual experience	724,207	-	724,207
Changes in assumptions	1,036,885	-	1,036,885
Employer contributions	-	693,476	(693,476)
Employee contributions	-	5,905	(5,905)
Net investment loss	-	(195,083)	195,083
Benefit payments, including refunds of employee Contributions	(1,104,777)	(1,104,777)	-
Administrative expense	-	(28,591)	28,591
Net changes	<u>2,548,216</u>	<u>(629,070)</u>	<u>3,177,286</u>
Balances at December 31, 2015	<u>\$ 21,640,550</u>	<u>\$ 12,531,070</u>	<u>\$ 9,109,480</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the County, calculated using the discount rate of 8.25%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
County's net pension liability	\$ 11,582,006	\$ 9,109,480	\$ 7,013,004

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2016, the County recognized pension expense of \$1,557,822. The County reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 1,151,114
Difference between expected and actual experience	543,155
Changes in assumptions	777,663
	<u>2,471,932</u>
Contributions subsequent to the measurement	698,709
	<u>698,709</u>
Total	<u>\$ 3,170,641</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending December 31, 2016. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended December 31,	Amount
2017	\$ 739,785
2018	739,785
2019	739,779
2020	<u>252,583</u>
Total	<u>\$ 2,471,932</u>

Payable to the Pension Plan. At December 31, 2016, the County reported a payable of \$13,089 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2016.

Road Commission - Component Unit

Description of Plan and Plan Assets. The Road Commission 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 to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.50% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

01-General: Closed Division

	<u>2015 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 Years
Employee Contributions:	1.50%
Act 88:	Yes (Adopted 11/23/1970)

02-General: Open Division

	<u>2015 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 Years
Employee Contributions:	1.50%
Act 88:	Yes (Adopted 11/23/1970)

NonUnion: Open Division

	<u>2015 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 Years
Employee Contributions:	1.50%
Act 88:	Yes (Adopted 11/23/1970)

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

At December 31, 2015, the following employees were covered by the benefit term:

Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	6
Active employees	29
Total	<u>84</u>

Funding Policy. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined blended rate for 2016 of 32.73% of payroll.

Net Pension Liability. The Road Commission's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%, net of interest and administrative expense including inflation

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of January 1, 2009, through December 31, 2013. The main assumption and method changes in the most recent actuarial valuation included an adjustment to the mortality table to reflect longer lifetimes, the assumed annual rate of return, net of all expenses, was lowered from 8.0% to 7.75%, and the asset smoothing was changed from 10 to 5 years.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.53%
Diversifying strategies	10.00%	6.56%	0.64%
	<u>100.00%</u>		
Inflation			3.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.25%

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2015 and will be 8.0% in 2016 and thereafter. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 10,675,637	\$ 5,928,466	\$ 4,747,171
Changes for the year:			
Service cost	125,690	-	125,690
Interest on total pension liability	853,243	-	853,243
Changes in benefits	(5,403)	-	(5,403)
Difference between expected and actual experience	18,096	-	18,096
Changes in assumptions	588,192	-	588,192
Employer contributions	-	508,482	(508,482)
Employee contributions	-	39,017	(39,017)
Net investment income	-	662,026	(662,026)
Benefit payments, including employee refunds	(792,294)	(792,294)	-
Administrative expense	-	(13,077)	13,077
Other changes	(5,518)	-	(5,518)
Net changes	782,006	404,154	377,852
Balances at December 31, 2016	\$ 11,457,643	\$ 6,332,620	\$ 5,125,023

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.00% , as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Road Commission's net pension liability	\$ 6,331,562	\$ 5,125,023	\$ 4,094,813

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2016, the Road Commission recognized pension expense of \$748,037. At December 31, 2016, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected actual experience	\$ 12,064
Changes in assumptions	392,128
Net difference between projected and actual earnings on pension plan investments	<u>210,279</u>
Total	<u><u>\$ 614,471</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended December 31,	Amount
2017	\$ 284,426
2018	284,426
2019	82,330
2020	<u>(36,711)</u>
Total	<u><u>\$ 614,471</u></u>

Annual Pension Cost

During the year ended December 31, 2016, the Road Commission's contributions totaling \$366,192 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2014. 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 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 projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 24 years.

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

18. DEFERRED COMPENSATION PLAN

Primary Government

Otsego County offers its employees a deferred compensation plan created in accordance with IRC Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit for the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (Nationwide Retirement Solutions) is an agent of the employer. The Administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. GASB 32 does not require inclusion of the deferred compensation balances in a trust and agency fund.

Commission on Aging

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

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

Component Unit - Sportsplex

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

19. OTHER POSTEMPLOYMENT BENEFITS

Primary government

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

Funding policy. Contribution requirements also are negotiated between the County and employees. The County contributes 80% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2016, the County contributed \$77,482 to the plan.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Annual OPEB Cost and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 239,478
Interest on net OPEB obligation	82,212
Adjustment to annual required contribution	<u>(136,753)</u>
Net OPEB cost (expense)	184,937
Contributions made	(77,482)
Adjustment to contributions	<u>130,540</u>
Increase in net OPEB	237,995
Net OPEB obligation, beginning of year	<u>1,935,870</u>
Net OPEB obligation, end of year	<u><u>\$ 2,173,865</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 186,669	49%	\$ 1,984,930
12/31/2015	188,704	126%	1,935,870
12/31/2016	184,937	42%	2,173,865

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

In the December 31, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after four years. Both rates included percent inflation assumptions of 9%. The actuarial value of assets (if any) was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

Road Commission - Component Unit

The Otsego County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the Road Commissions group health insurance plan, which covers both active and retired members. The following are the Governmental Accounting Standards Board Statement No. 45 required disclosures which have been implemented prospectively by the Road Commission.

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

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

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

Funding Progress. For the year ended December 31, 2016, the Road Commission has determined an estimated cost of providing post employment benefits through the alternative measurement method of calculation as of December 31, 2016. 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. For fiscal year 2016, the Road Commission contributed \$351,478 to the plan, including member contributions of \$2,836.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

Annual required contribution (ARC)	\$ 307,622
Interest on net OPEB obligation	<u>325,930</u>
Annual OPEB cost (expense)	633,552
Contributions made	<u>(351,478)</u>
Increase in net OPEB obligation	282,074
Net OPEB obligation, beginning of year	<u>8,148,256</u>
Net OPEB obligation, end of year	<u>\$ 8,430,330</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 2014, 2015 and 2016 are as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 1,221,411	25.75%	\$ 8,138,731
12/31/2015	319,151	97.02%	8,148,256
12/31/2016	633,552	55.40%	8,430,330

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,088,899, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,103,398, and the ratio of the UAAL to the covered payroll was 552%.

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.

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 2007 Version - United States Life Tables. 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 2015 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 2005-2020 version of the National Health Expenditures projection.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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 4.0%. 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.

OTSEGO COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

20. FUND BALANCES - GOVERNMENTAL FUNDS

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

	General Fund	Housing Commission	M-TEC	Public Improvements Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable	\$ 17,567	\$ -	\$ -	\$ -	\$ -	\$ 17,567
Restricted for:						
Housing projects	-	151,618	-	-	-	151,618
Public safety	-	-	-	-	1,816,012	1,816,012
Health and welfare	-	-	-	-	119,894	119,894
Recreation and culture	-	-	122	-	1,080,140	1,080,262
Debt service	-	-	-	-	127,373	127,373
Recycling	-	-	-	-	212,964	212,964
Register of Deeds	-	-	-	-	78,567	78,567
Law Library	-	-	-	-	15,949	15,949
Bradford Lake Dam	-	-	-	-	20,068	20,068
Total restricted	-	151,618	122	-	3,470,967	3,622,707
Committed for:						
Work Camp	-	-	-	-	90,889	90,889
Friend of the Court	-	-	-	-	247,537	247,537
Child Care Probate	-	-	-	-	245,546	245,546
Equipment	-	-	-	-	95,947	95,947
Public improvements	-	-	-	1,816,255	1,222,056	3,038,311
Total committed	-	-	-	1,816,255	1,901,975	3,718,230
Unassigned	4,601,720	-	-	-	-	4,601,720
Total fund balances, governmental funds	\$ 4,619,287	\$ 151,618	\$ 122	\$ 1,816,255	\$ 5,372,942	\$ 11,960,224

OTSEGO COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

21. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION

The composition of net investment in capital assets as of December 31, 2016, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 2,374,005	\$ 116,498	\$ 9,895,950
Capital assets being depreciated, net	7,479,597	7,333,583	24,502,667
	<u>9,853,602</u>	<u>7,450,081</u>	<u>34,398,617</u>
Less related debt:			
Total installment debt	1,867,313	-	1,883,671
Less: Otsego County Road Commission lease payable	(725,000)	-	-
	<u>1,142,313</u>	<u>-</u>	<u>1,883,671</u>
 Net investment in capital assets	 <u>\$ 8,711,289</u>	 <u>\$ 7,450,081</u>	 <u>\$ 32,514,946</u>

The composition of restricted net position as of December 31, 2016, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Net position restricted for:			
Housing projects	\$ 2,019,466	\$ -	\$ -
Public safety	1,816,012	-	-
Health and welfare	119,894	-	-
Recreation and culture	1,080,262	-	-
Debt service	106,906	-	-
Recycling	212,964	-	-
Register of Deeds	78,567	-	-
Law Library	15,949	-	-
Bradford Lake Dam	20,068	-	-
University Center	-	-	343,145
Commission on Aging	-	-	44,000
	<u>-</u>	<u>-</u>	<u>44,000</u>
 Total restricted net position	 <u>\$ 5,470,088</u>	 <u>\$ -</u>	 <u>\$ 387,145</u>

22. SUBSEQUENT EVENTS

Dissolution of The University Center

Effective at the close of business on December 31, 2016, the University Center of Gaylord (UC), a Michigan nonprofit corporation and a component unit of the County, was dissolved. Beginning January 1, 2017, an agreement was formed between Kirtland Community College (KCC) and Otsego County for operating and maintaining the UC. The agreement provides that Otsego County will contract with KCC to operate the UC by providing academic programming and educational services. The agreement establishes a Governance Advisory Board (GAB), a 16-20 member board which shall include 2 Otsego County Commissioners or the County Administrator. The GAB serves in an advisory capacity only. KCC shall provide Otsego County with an operating budget annually for its review; the County does not approve this budget.

OTSEGO COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The agreement also provides that all residual monies from the UC's Restricted, Unrestricted, University Center Metropolitan Area Network, and Advertising Funds will be transferred to Otsego County as soon as is practical. With those monies, Otsego County shall establish a sinking fund that will be used for the UC building repairs, maintenance, and improvements. Otsego County retains ownership of its half of the building and contents. Upon depletion of the sinking fund, KCC shall be solely responsible for the cost of all building maintenance, alterations, and repairs. KCC and Otsego County will meet and jointly develop and approve a capital improvement plan annually. This will be the budget for the sinking fund.

Otsego County will continue to levy the approved millage for the University Center, which goes through 2020. The County will use the millage monies to pay for the debt service obligations on the UC building and for property insurance on the building. All remaining millage monies will be remitted to KCC for UC operations.

Iron Belle Trail

As part of the State of Michigan's Rails to Trails initiative, Otsego County will be home to a portion of the Iron Belle Trail, a statewide trail system that will connect Detroit's Belle Isle State Park to Ironwood in the Upper Peninsula. Otsego County's portion of the trail will be 12 miles long. It will be a non-motorized trail in the summer months and a snowmobile trail in the winter.

In January 2017, the County received notification that it has been awarded two grants for construction of the Otsego County portion of the Iron Belle Trail:

Michigan Natural Resources Trust Fund Grant	\$ 300,000
Michigan Dept of Transportation Alternatives Program	<u>1,379,558</u>
Total	<u>\$ 1,679,558</u>

In addition to this funding, the local match for the project totals \$610,000 as follows: \$203,000 from both Otsego Lake and Bagley Townships, and \$204,000 from Otsego County.

Construction is anticipated to span 2017 and 2018.

Library Expansion Project

The voters of Otsego County passed a 0.375 millage in November, 2016 for 6 years, to repay bonds which will be issued to fund a Library Expansion Project, which will increase the square footage of the existing Otsego County Library from 9,300 to 24,000 square feet.

Funded by Library savings	\$ 750,000
Funded with bonds (to be repaid using the new millage)	<u>2,250,000</u>
Total estimated cost of the expansion project	<u>\$ 3,000,000</u>

The expansion is anticipated to be completed in 2017 or early 2018.

Road Commission

Subsequent to year end, the Road Commission executed the purchase of a truck for approximately \$120,000 and equipment purchases amounting to approximately \$14,000.



REQUIRED SUPPLEMENTARY INFORMATION

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in County's Net Pension Liability and Related Ratios

	Year Ended December 31	
	2016	2015
Total pension liability		
Service cost	\$ 348,000	\$ 338,932
Interest	1,543,901	1,479,439
Differences between expected and actual experience	724,207	-
Changes in assumptions	1,036,885	-
Benefit payments, including refunds of employee contributions	(1,104,777)	(978,368)
Net change in total pension liability	2,548,216	840,003
Total pension liability, beginning of year	19,092,334	18,252,331
Total pension liability, end of year	21,640,550	19,092,334
Plan fiduciary net position		
Employer contributions	693,476	640,433
Employee contributions	5,905	3,630
Net investment (loss) income	(195,083)	800,044
Benefit payments, including refunds of employee contributions	(1,104,777)	(978,368)
Administrative expense	(28,591)	(29,357)
Net change in plan fiduciary net position	(629,070)	436,382
Plan fiduciary net position, beginning of year	13,160,140	12,723,758
Plan fiduciary net position, end of year	12,531,070	13,160,140
County's net pension liability	\$ 9,109,480	\$ 5,932,194
Plan fiduciary net position as a percentage of total pension liability	57.9%	68.9%
Covered-employee payroll	\$ 4,390,047	\$ 4,188,926
County's net pension liability as a percentage of covered-employee payroll	207.5%	141.6%

Notes:

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 19,092,334	\$ 13,160,140	\$ 5,932,194	68.9%	\$ 4,188,926	141.62%
2016	21,640,550	12,531,070	9,109,480	57.9%	4,390,047	207.50%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending December 31,	Actuarially Determined Contribution ⁽²⁾	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll ⁽¹⁾	Contributions as Percentage of Covered-Employee Payroll
2007	\$ 635,376	\$ 635,376	\$ -	\$ 4,412,630	14.40%
2008	590,169	590,169	-	4,441,009	13.29%
2009	633,642	633,642	-	4,426,638	14.31%
2010	716,885	716,885	-	4,385,025	16.35%
2011	565,476	565,476	-	4,400,424	12.85%
2012	705,702	705,702	-	4,014,917	17.58%
2013	727,962	727,962	-	4,080,889	17.84%
2014	640,433	640,433	-	4,188,926	15.29%
2015	693,477	693,477	-	4,390,047	15.80%
2016	715,641	715,641	-	4,547,735	15.74%

(1) Valuation payroll as of the previous year ended December 31.

(2) The actuarially determined contribution was calculated based on projected covered payroll. Employer contributions were made in full based on actual covered payroll. Accordingly, the actuarially-determined contribution has been expressed above as a percentage of actual payroll.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	23 years
Asset valuation method	10 year smoothed
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

Changes in Assumptions

Based on the 2009-2013 Experience Study the following assumptions were changed starting with the December 31, 2015 valuation: (1) mortality table was adjusted to reflect longer lifetimes, (2) assumed annual rate of return of investment return, net of all expenses, was lowered from 8% to 7.75% (3) asset smoothing period was changed from 10 years to 5 years.

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information

Other Postemployment Benefits Plan (Primary Government)

Schedule of Funding Progress Other Postemployment Benefits Plan

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

Schedule of Employer Contributions Other Postemployment Benefits Plan

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2014	\$ 230,628	40%
2015	237,772	45%
2016	239,478	32%

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2016

	Special Revenue	Capital Projects	Total
Assets			
Cash and cash equivalents	\$ 1,916,740	\$ 945,966	\$ 2,862,706
Investments	2,057,770	432,688	2,490,458
Receivables, net:			
Accounts	119,522	-	119,522
Property taxes	1,315,782	648,830	1,964,612
Due from other governments	296,647	-	296,647
Total assets	\$ 5,706,461	\$ 2,027,484	\$ 7,733,945
Liabilities			
Accounts payable	\$ 161,003	\$ 27,254	\$ 188,257
Accrued liabilities	14,821	-	14,821
Due to other governments	109,323	-	109,323
Advances from other funds	32,753	-	32,753
Unearned revenue	51,237	-	51,237
Total liabilities	369,137	27,254	396,391
Deferred inflows of resources			
Taxes levied for a subsequent period	1,315,782	648,830	1,964,612
Fund balances			
Restricted	3,341,623	129,344	3,470,967
Committed	679,919	1,222,056	1,901,975
Total fund balances	4,021,542	1,351,400	5,372,942
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,706,461	\$ 2,027,484	\$ 7,733,945

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended December 31, 2016

	Special Revenue	Capital Projects	Total
Revenues			
Taxes	\$ 1,419,507	\$ 215,226	\$ 1,634,733
Federal sources	310,759	-	310,759
State sources	412,528	42,905	455,433
Charges for services	1,220,354	53,972	1,274,326
Fines and forfeits	216,738	-	216,738
Interest and rentals	53,769	8,123	61,892
Other	743,410	35,576	778,986
Total revenues	4,377,065	355,802	4,732,867
Expenditures			
Judicial	442,123	12,575	454,698
General government	342,222	-	342,222
Public safety	1,475,517	298,572	1,774,089
Public works	-	150,262	150,262
Health and welfare	823,356	-	823,356
Recreation and culture	1,104,702	72,621	1,177,323
Other	-	9,287	9,287
Debt service:			
Principal	161,828	-	161,828
Interest and fiscal charges	5,901	-	5,901
Capital outlay	266,110	589,347	855,457
Total expenditures	4,621,759	1,132,664	5,754,423
Revenues under expenditures	(244,694)	(776,862)	(1,021,556)
Other financing sources (uses)			
Transfers in	854,702	307,500	1,162,202
Transfers out	(28,300)	(9,150)	(37,450)
Total other financing sources	826,402	298,350	1,124,752
Net change in fund balances	581,708	(478,512)	103,196
Fund balances, beginning of year	3,439,834	1,829,912	5,269,746
Fund balances, end of year	\$ 4,021,542	\$ 1,351,400	\$ 5,372,942

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 December 31, 2016

	Work Camp	Parks and Recreation	Groen Nature Preserve	Friend of the Court
Assets				
Cash and cash equivalents	\$ 65,305	\$ 31,040	\$ 19,119	\$ 161,690
Investments	22,973	298,919	-	-
Receivables				
Accounts	-	782	-	160
Property taxes	-	217,312	-	-
Due from other governments	5,323	-	-	99,319
Total assets	\$ 93,601	\$ 548,053	\$ 19,119	\$ 261,169
Liabilities				
Accounts payable	\$ 1,739	\$ 5,679	\$ 1,206	\$ 8,419
Accrued liabilities	973	2,071	529	5,213
Due to other governments	-	-	-	-
Advances from other funds	-	-	-	-
Unearned revenue	-	51,237	-	-
Total liabilities	2,712	58,987	1,735	13,632
Deferred inflows of resources				
Taxes levied for a subsequent period	-	217,312	-	-
Fund balances				
Restricted	-	271,754	17,384	-
Committed	90,889	-	-	247,537
Total fund balances	90,889	271,754	17,384	247,537
Total liabilities, deferred inflows of resources, and fund balances	\$ 93,601	\$ 548,053	\$ 19,119	\$ 261,169

Animal Control	Animal Control Forfeited Funds	Recycling Funds	Gypsy Moth Control	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation Fund	Library
\$ 42,702	\$ 8,160	\$ 47,671	\$ 114,188	\$ 127,373	\$ 516,596	\$ 79,160	\$ 124,767
392,923	-	185,946	-	-	297,418	-	552,564
-	-	-	-	-	-	50	2,554
347,114	-	288,361	-	-	-	-	462,995
481	-	-	-	-	-	-	-
<u>\$ 783,220</u>	<u>\$ 8,160</u>	<u>\$ 521,978</u>	<u>\$ 114,188</u>	<u>\$ 127,373</u>	<u>\$ 814,014</u>	<u>\$ 79,210</u>	<u>\$ 1,142,880</u>
\$ 12,468	\$ -	\$ 20,653	\$ -	\$ -	\$ 7,700	\$ 643	\$ 18,455
2,892	-	-	-	-	1,132	-	(228)
-	-	-	-	-	-	-	-
32,753	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>48,113</u>	<u>-</u>	<u>20,653</u>	<u>-</u>	<u>-</u>	<u>8,832</u>	<u>643</u>	<u>18,227</u>
347,114	-	288,361	-	-	-	-	462,995
387,993	8,160	212,964	114,188	127,373	805,182	78,567	661,658
-	-	-	-	-	-	-	-
<u>387,993</u>	<u>8,160</u>	<u>212,964</u>	<u>114,188</u>	<u>127,373</u>	<u>805,182</u>	<u>78,567</u>	<u>661,658</u>
<u>\$ 783,220</u>	<u>\$ 8,160</u>	<u>\$ 521,978</u>	<u>\$ 114,188</u>	<u>\$ 127,373</u>	<u>\$ 814,014</u>	<u>\$ 79,210</u>	<u>\$ 1,142,880</u>

Continued...

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2016

	Emergency 911 Funds	Concealed Pistol Licensing	Local Officers Training	Law Library	Department of Human Services	Child Care Probate
Assets						
Cash and cash equivalents	\$ 148,757	\$ 17,257	\$ 25,104	\$ 16,192	\$ 246	\$ 246,648
Investments	302,027	-	-	-	5,000	-
Receivables, net:						
Accounts	112,015	98	1,502	-	-	2,302
Property taxes	-	-	-	-	-	-
Due from other governments	36,653	-	-	-	-	154,871
Total assets	\$ 599,452	\$ 17,355	\$ 26,606	\$ 16,192	\$ 5,246	\$ 403,821
Liabilities						
Accounts payable	\$ 28,736	\$ -	\$ -	\$ 243	\$ 106	\$ 46,713
Accrued liabilities	-	-	-	-	-	2,239
Due to other governments	-	-	-	-	-	109,323
Advances from other funds	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Total liabilities	28,736	-	-	243	106	158,275
Deferred inflows of resources						
Taxes levied for a subsequent period	-	-	-	-	-	-
Fund balances						
Restricted	570,716	17,355	26,606	15,949	5,140	-
Committed	-	-	-	-	-	245,546
Total fund balances	570,716	17,355	26,606	15,949	5,140	245,546
Total liabilities, inflows of resources, and fund balances	\$ 599,452	\$ 17,355	\$ 26,606	\$ 16,192	\$ 5,246	\$ 403,821

Veteran's Trust	Equipment Revolving	Bradford Lake Dam	Total
\$ 566	\$ 104,131	\$ 20,068	\$ 1,916,740
-	-	-	2,057,770
-	59	-	119,522
-	-	-	1,315,782
-	-	-	296,647
<u>\$ 566</u>	<u>\$ 104,190</u>	<u>\$ 20,068</u>	<u>\$ 5,706,461</u>
\$ -	\$ 8,243	\$ -	\$ 161,003
-	-	-	14,821
-	-	-	109,323
-	-	-	32,753
-	-	-	51,237
-	8,243	-	369,137
-	-	-	1,315,782
566	-	20,068	3,341,623
-	95,947	-	679,919
<u>566</u>	<u>95,947</u>	<u>20,068</u>	<u>4,021,542</u>
<u>\$ 566</u>	<u>\$ 104,190</u>	<u>\$ 20,068</u>	<u>\$ 5,706,461</u>

Concluded

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2016

	Work Camp	Parks and Recreation	Groen Nature Preserve	Friend of the Court	Animal Control	Animal Control Forfeited Funds
Revenues						
Taxes	\$ -	\$ 212,176	\$ -	\$ -	\$ 339,609	\$ -
Federal sources	-	-	-	310,759	-	-
State sources	-	1,658	-	57,635	-	-
Charges for services	43,969	245,163	-	34,841	47,973	-
Fines and forfeits	-	-	-	-	1,105	-
Interest and rentals	179	6,564	-	-	8,531	7
Other revenue	1,754	23,678	73,105	-	17,534	-
Total revenues	45,902	489,239	73,105	403,235	414,752	7
Expenditures						
Judicial	-	-	-	442,123	-	-
General government	-	-	-	-	-	-
Public safety	129,305	-	-	-	366,420	1
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	385,248	64,353	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	129,305	385,248	64,353	442,123	366,420	1
Revenues over (under) expenditures	(83,403)	103,991	8,752	(38,888)	48,332	6
Other financing sources (uses)						
Transfers in	25,670	350	-	113,964	525	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	25,670	350	-	113,964	525	-
Net change in fund balances	(57,733)	104,341	8,752	75,076	48,857	6
Fund balances, beginning of year	148,622	167,413	8,632	172,461	339,136	8,154
Fund balances, end of year	\$ 90,889	\$ 271,754	\$ 17,384	\$ 247,537	\$ 387,993	\$ 8,160

Recycling Fund	Gypsy Moth Control	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation Fund	Library
\$ 282,969	\$ -	\$ 131,917	\$ -	\$ -	\$ 452,836
-	-	-	-	-	-
-	-	-	-	-	18,162
-	-	-	649,472	32,765	-
-	-	-	-	-	215,633
3,408	240	-	3,037	-	22,859
3,575	-	-	-	-	39,778
<u>289,952</u>	<u>240</u>	<u>131,917</u>	<u>652,509</u>	<u>32,765</u>	<u>749,268</u>
-	-	-	-	-	-
306,190	-	-	-	19,443	-
-	-	-	403,945	-	-
-	-	-	-	-	-
-	-	-	-	-	651,968
-	-	161,828	-	-	-
-	-	5,901	-	-	-
-	-	-	-	-	1
<u>306,190</u>	<u>-</u>	<u>167,729</u>	<u>403,945</u>	<u>19,443</u>	<u>651,969</u>
<u>(16,238)</u>	<u>240</u>	<u>(35,812)</u>	<u>248,564</u>	<u>13,322</u>	<u>97,299</u>
-	-	-	-	3,823	-
-	-	-	(6,000)	-	-
-	-	-	(6,000)	3,823	-
(16,238)	240	(35,812)	242,564	17,145	97,299
<u>229,202</u>	<u>113,948</u>	<u>163,185</u>	<u>562,618</u>	<u>61,422</u>	<u>564,359</u>
<u>\$ 212,964</u>	<u>\$ 114,188</u>	<u>\$ 127,373</u>	<u>\$ 805,182</u>	<u>\$ 78,567</u>	<u>\$ 661,658</u>

Continued...

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2016

	Emergency 911 Funds	Concealed Pistol Licensing	Local Officers Training	Law Library	Department of Human Services	Child Care Probate
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-
State sources	-	-	-	-	-	326,528
Charges for services	148,048	12,392	5,731	-	-	-
Fines and forfeits	-	-	-	-	-	-
Interest and rentals	7,816	-	-	-	51	-
Other revenue	507,819	-	-	3,500	-	69,758
Total revenues	663,683	12,392	5,731	3,500	51	396,286
Expenditures						
Judicial	-	-	-	-	-	-
General government	-	-	-	-	-	-
Public safety	572,976	-	2,870	-	-	-
Health and welfare	-	-	-	-	6,252	808,516
Recreation and culture	-	-	-	3,133	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Capital outlay	89,758	-	-	-	-	-
Total expenditures	662,734	-	2,870	3,133	6,252	808,516
Revenues over (under) expenditures	949	12,392	2,861	367	(6,201)	(412,230)
Other financing sources (uses)						
Transfers in	-	-	-	-	5,835	550,035
Transfers out	(22,300)	-	-	-	-	-
Total other financing sources (uses)	(22,300)	-	-	-	5,835	550,035
Net change in fund balances	(21,351)	12,392	2,861	367	(366)	137,805
Fund balances, beginning of year	592,067	4,963	23,745	15,582	5,506	107,741
Fund balances, end of year	\$ 570,716	\$ 17,355	\$ 26,606	\$ 15,949	\$ 5,140	\$ 245,546

Veteran's Trust	Equipment Revolving	Bradford Lake Dam	Total
\$ -	\$ -	\$ -	\$ 1,419,507
-	-	-	310,759
8,545	-	-	412,528
-	-	-	1,220,354
-	-	-	216,738
-	1,077	-	53,769
-	2,909	-	743,410
<u>8,545</u>	<u>3,986</u>	<u>-</u>	<u>4,377,065</u>
-	-	-	442,123
-	16,589	-	342,222
-	-	-	1,475,517
8,588	-	-	823,356
-	-	-	1,104,702
-	-	-	161,828
-	-	-	5,901
-	176,351	-	266,110
<u>8,588</u>	<u>192,940</u>	<u>-</u>	<u>4,621,759</u>
<u>(43)</u>	<u>(188,954)</u>	<u>-</u>	<u>(244,694)</u>
-	154,500	-	854,702
-	-	-	(28,300)
-	154,500	-	826,402
<u>(43)</u>	<u>(34,454)</u>	<u>-</u>	<u>581,708</u>
<u>609</u>	<u>130,401</u>	<u>20,068</u>	<u>3,439,834</u>
<u>\$ 566</u>	<u>\$ 95,947</u>	<u>\$ 20,068</u>	<u>\$ 4,021,542</u>

Concluded

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 December 31, 2016

	EMS Building Capital Project Fund	Library Building	Library Construction Millage	Court Restoration Building
Assets				
Cash and cash equivalents	\$ 19,242	\$ 251,987	\$ -	\$ 83,792
Investments	-	300,000	-	-
Receivables				
Property taxes	790	-	432,144	-
Total assets	<u>\$ 20,032</u>	<u>\$ 551,987</u>	<u>\$ 432,144</u>	<u>\$ 83,792</u>
Liabilities				
Accounts payable	\$ 19,223	\$ -	\$ -	\$ -
Deferred inflows of resources				
Taxes levied for a subsequent period	790	-	432,144	-
Fund balances				
Restricted	-	-	-	-
Committed	19	551,987	-	83,792
Total fund balances	<u>19</u>	<u>551,987</u>	<u>-</u>	<u>83,792</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 20,032</u>	<u>\$ 551,987</u>	<u>\$ 432,144</u>	<u>\$ 83,792</u>

Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Sportsplex Building Maintenance	Capital Projects	Total
\$ 156,925	\$ 26,220	\$ 216	\$ 96,656	\$ 310,928	\$ 945,966
-	-	-	32,688	100,000	432,688
-	-	-	215,896	-	648,830
<u>\$ 156,925</u>	<u>\$ 26,220</u>	<u>\$ 216</u>	<u>\$ 345,240</u>	<u>\$ 410,928</u>	<u>\$ 2,027,484</u>
\$ 1,650	\$ -	\$ -	\$ -	\$ 6,381	\$ 27,254
-	-	-	215,896	-	648,830
-	-	-	129,344	-	129,344
<u>155,275</u>	<u>26,220</u>	<u>216</u>	<u>-</u>	<u>404,547</u>	<u>1,222,056</u>
<u>155,275</u>	<u>26,220</u>	<u>216</u>	<u>129,344</u>	<u>404,547</u>	<u>1,351,400</u>
<u>\$ 156,925</u>	<u>\$ 26,220</u>	<u>\$ 216</u>	<u>\$ 345,240</u>	<u>\$ 410,928</u>	<u>\$ 2,027,484</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects Funds

For the Year Ended December 31, 2016

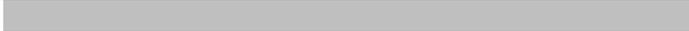
	EMS Building Capital Project Fund	Library Building	Library Construction Millage	Court Restoration Building
Revenues				
Property taxes	\$ 1,482	\$ -	\$ -	\$ -
State grants	-	-	-	-
Charges for services	-	-	-	53,972
Interest and rentals	703	6,572	-	-
Other revenue	-	-	-	-
Total revenues	2,185	6,572	-	53,972
Expenditures				
Judicial	-	-	-	12,575
Public safety	298,572	-	-	-
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Other	-	-	-	-
Capital outlay	-	-	-	36,230
Total expenditures	298,572	-	-	48,805
Revenues over (under) expenditures	(296,387)	6,572	-	5,167
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(296,387)	6,572	-	5,167
Fund balances, beginning of year	296,406	545,415	-	78,625
Fund balances, end of year	\$ 19	\$ 551,987	\$ -	\$ 83,792

Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Sportsplex Building Maintenance	Capital Projects	Total
\$ -	\$ -	\$ -	\$ 213,744	\$ -	\$ 215,226
-	-	-	-	42,905	42,905
-	-	-	-	-	53,972
-	-	-	848	-	8,123
1,530	22,000	-	12,046	-	35,576
1,530	22,000	-	226,638	42,905	355,802
-	-	-	-	-	12,575
-	-	-	-	-	298,572
-	-	-	-	150,262	150,262
-	20,250	-	52,371	-	72,621
9,287	-	-	-	-	9,287
21,400	-	-	113,672	418,045	589,347
30,687	20,250	-	166,043	568,307	1,132,664
(29,157)	1,750	-	60,595	(525,402)	(776,862)
25,000	-	-	-	282,500	307,500
(9,150)	-	-	-	-	(9,150)
15,850	-	-	-	282,500	298,350
(13,307)	1,750	-	60,595	(242,902)	(478,512)
168,582	24,470	216	68,749	647,449	1,829,912
\$ 155,275	\$ 26,220	\$ 216	\$ 129,344	\$ 404,547	\$ 1,351,400

OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position
 Nonmajor Enterprise Funds
 December 31, 2016

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Assets			
Current assets:			
Cash and cash equivalents	\$ 181,168	\$ 67,269	\$ 130,437
Investments	1,380,752	-	-
Accounts receivable	2,356	-	5,487
Total current assets	<u>1,564,276</u>	<u>67,269</u>	<u>135,924</u>
Noncurrent assets:			
Capital assets being depreciated, net	-	-	86,083
Total assets	<u>1,564,276</u>	<u>67,269</u>	<u>222,007</u>
Liabilities (all current)			
Accounts payable	1,167	1,200	7,115
Accrued liabilities	436	-	-
Total liabilities	<u>1,603</u>	<u>1,200</u>	<u>7,115</u>
Net position			
Net investment in capital assets	-	-	86,083
Unrestricted	1,562,673	66,069	128,809
Total net position	<u>\$ 1,562,673</u>	<u>\$ 66,069</u>	<u>\$ 214,892</u>



Airport Special Events	Jail Commissary	Homestead Audit	Total
\$ 12,140	\$ 332	\$ 11,958	\$ 403,304
-	-	-	1,380,752
-	5,121	-	12,964
<u>12,140</u>	<u>5,453</u>	<u>11,958</u>	<u>1,797,020</u>
-	-	-	86,083
<u>12,140</u>	<u>5,453</u>	<u>11,958</u>	<u>1,883,103</u>
71	1,675	-	11,228
-	-	-	436
<u>71</u>	<u>1,675</u>	<u>-</u>	<u>11,664</u>
-	-	-	86,083
<u>12,069</u>	<u>3,778</u>	<u>11,958</u>	<u>1,785,356</u>
<u>\$ 12,069</u>	<u>\$ 3,778</u>	<u>\$ 11,958</u>	<u>\$ 1,871,439</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Fund Net Position
 Nonmajor Enterprise Funds
 For the Year Ended December 31, 2016

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Operating revenues			
Charges for services	\$ 114,778	\$ 23,125	\$ 86,492
Local sources	-	5,000	-
Total operating revenues	114,778	28,125	86,492
Operating expenses			
Salaries and fringes	55,914	-	-
Contractual services	-	10,785	-
Materials and supplies	4,991	22,967	-
Depreciation	-	-	12,300
Other	3,072	-	57,028
Total operating expenses	63,977	33,752	69,328
Operating income (loss)	50,801	(5,627)	17,164
Nonoperating revenues			
Investment earnings	26,774	-	-
Other	209,099	-	-
Total nonoperating revenues	235,873	-	-
Income (loss) before transfers	286,674	(5,627)	17,164
Transfers			
Transfers in	125	17,000	-
Transfers out	(42,500)	-	-
Total transfers	(42,375)	17,000	-
Change in net position	244,299	11,373	17,164
Net position, beginning of year	1,318,374	54,696	197,728
Net position, end of year	\$ 1,562,673	\$ 66,069	\$ 214,892

Airport Special Events	Jail Commissary	Homestead Audit	Total
\$ 61,083	\$ 11,723	\$ 95	\$ 297,296
-	-	-	5,000
<u>61,083</u>	<u>11,723</u>	<u>95</u>	<u>302,296</u>
-	-	-	55,914
113,995	-	-	124,780
10,343	13,927	-	52,228
-	-	-	12,300
<u>34,470</u>	<u>-</u>	<u>3,055</u>	<u>97,625</u>
<u>158,808</u>	<u>13,927</u>	<u>3,055</u>	<u>342,847</u>
<u>(97,725)</u>	<u>(2,204)</u>	<u>(2,960)</u>	<u>(40,551)</u>
-	-	790	27,564
<u>77,927</u>	<u>-</u>	<u>-</u>	<u>287,026</u>
<u>77,927</u>	<u>-</u>	<u>790</u>	<u>314,590</u>
<u>(19,798)</u>	<u>(2,204)</u>	<u>(2,170)</u>	<u>274,039</u>
-	-	-	17,125
<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,500)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,375)</u>
<u>(19,798)</u>	<u>(2,204)</u>	<u>(2,170)</u>	<u>248,664</u>
<u>31,867</u>	<u>5,982</u>	<u>14,128</u>	<u>1,622,775</u>
<u>\$ 12,069</u>	<u>\$ 3,778</u>	<u>\$ 11,958</u>	<u>\$ 1,871,439</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Cash Flows Nonmajor Enterprise Funds For the Year Ended December 31, 2016

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Cash flows from operating activities			
Receipts from customers	\$ 112,422	\$ 28,125	\$ 81,644
Payments to suppliers	(65,877)	(34,347)	(55,193)
Net cash provided by (used in) operating activities	46,545	(6,222)	26,451
Cash flows from noncapital financing activities			
Other receipts	209,099	-	-
Transfers in	125	17,000	-
Transfers out	(42,500)	-	-
Net cash provided by (used in) noncapital financing activities	166,724	17,000	-
Cash flows from investing activities			
Purchases of investments	(434,445)	-	-
Interest received on investments	26,774	-	-
Net cash provided by (used in) investing activities	(407,671)	-	-
Net increase (decrease) in cash and cash equivalents	(194,402)	10,778	26,451
Cash and cash equivalents, beginning of year	375,570	56,491	103,986
Cash and cash equivalents, end of year	\$ 181,168	\$ 67,269	\$ 130,437
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 50,801	\$ (5,627)	\$ 17,164
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	-	12,300
Change in operating assets and liabilities that provided (used) cash:			
Accounts receivable	(2,356)	-	(4,848)
Prepays	-	-	-
Accounts payable	(1,695)	(595)	1,835
Accrued liabilities	(205)	-	-
Unearned revenue	-	-	-
Net cash provided by (used in) operating activities	\$ 46,545	\$ (6,222)	\$ 26,451



Airport Special Events	Jail Commissary	Homestead Audit	Total
\$ 61,283 (151,868)	\$ 12,948 (12,941)	\$ 95 (3,055)	\$ 296,517 (323,281)
<u>(90,585)</u>	<u>7</u>	<u>(2,960)</u>	<u>(26,764)</u>
77,927	-	-	287,026
-	-	-	17,125
-	-	-	<u>(42,500)</u>
<u>77,927</u>	<u>-</u>	<u>-</u>	<u>261,651</u>
-	-	-	(434,445)
-	-	790	<u>27,564</u>
-	-	790	<u>(406,881)</u>
(12,658)	7	(2,170)	(171,994)
<u>24,798</u>	<u>325</u>	<u>14,128</u>	<u>575,298</u>
-	-	-	-
<u>\$ 12,140</u>	<u>\$ 332</u>	<u>\$ 11,958</u>	<u>\$ 403,304</u>
\$ (97,725)	\$ (2,204)	\$ (2,960)	\$ (40,551)
-	-	-	12,300
700	1,225	-	(5,279)
8,170	-	-	8,170
(1,230)	986	-	(699)
-	-	-	(205)
<u>(500)</u>	<u>-</u>	<u>-</u>	<u>(500)</u>
<u>\$ (90,585)</u>	<u>\$ 7</u>	<u>\$ (2,960)</u>	<u>\$ (26,764)</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position Internal Service Funds December 31, 2016

	Building and Grounds	Administrative Services	Health Care	Total
Assets (all current)				
Cash and cash equivalents	\$ 159,114	\$ 22,794	\$ 56,831	\$ 238,739
Investments	-	-	200,000	200,000
Accounts receivable, net	4,650	38	5,677	10,365
Inventories	-	325	-	325
Prepays	-	-	92,823	92,823
Total assets	163,764	23,157	355,331	542,252
Liabilities (all current)				
Accounts payable	19,934	5,737	-	25,671
Accrued liabilities	-	1,606	-	1,606
Total liabilities	19,934	7,343	-	27,277
Net position				
Unrestricted	143,830	15,814	355,331	514,975
Total net position	\$ 143,830	\$ 15,814	\$ 355,331	\$ 514,975

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Net Position
 Internal Service Funds
 For the Year Ended December 31, 2016

	Building and Grounds	Administrative Services	Health Care	Total
Operating revenues				
Charges for services	\$ 431,129	\$ 558,319	\$ 1,237,797	\$ 2,227,245
Operating expenses				
Salaries and fringes	-	540,762	1,282,365	1,823,127
Contractual services	242,424	-	-	242,424
Materials and supplies	1,087	5,426	-	6,513
Equipment repair and maintenance	26,868	6,529	-	33,397
Utilities	194,525	943	-	195,468
Other	4,115	8,527	-	12,642
Total operating expenses	469,019	562,187	1,282,365	2,313,571
Operating income (loss)	(37,890)	(3,868)	(44,568)	(86,326)
Nonoperating revenues				
Investment earnings	-	-	5,038	5,038
Income (loss) before transfers	(37,890)	(3,868)	(39,530)	(81,288)
Transfers				
Transfers in	-	870	-	870
Change in net position	(37,890)	(2,998)	(39,530)	(80,418)
Net position, beginning of year	181,720	18,812	394,861	595,393
Net position, end of year	\$ 143,830	\$ 15,814	\$ 355,331	\$ 514,975

OTSEGO COUNTY, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended December 31, 2016

	Building and Grounds	Administrative Services	Health Care	Total
Cash flows from operating activities				
Internal activity - receipts from other funds	\$ 429,334	\$ 558,281	\$ 1,232,448	\$ 2,220,063
Payments to suppliers	(461,406)	(16,020)	-	(477,426)
Payments to employees for services and benefits	-	(540,362)	(1,359,542)	(1,899,904)
Net cash provided by (used in) operating activities	<u>(32,072)</u>	<u>1,899</u>	<u>(127,094)</u>	<u>(157,267)</u>
Cash flows provided by noncapital financing activities				
Transfers in	-	870	-	870
Cash flows from investing activities				
Sale of investments	-	-	100,000	100,000
Interest received on investments	-	-	5,038	5,038
Net increase (decrease) in cash and cash equivalents	(32,072)	2,769	(22,056)	(51,359)
Cash and cash equivalents, beginning of year	191,186	20,025	78,887	290,098
Cash and cash equivalents, end of year	<u>\$ 159,114</u>	<u>\$ 22,794</u>	<u>\$ 56,831</u>	<u>\$ 238,739</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (37,890)	\$ (3,868)	\$ (44,568)	\$ (86,326)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Change in operating assets and liabilities that provided (used) cash:				
Accounts receivable	(4)	(38)	(5,349)	(5,391)
Prepays	-	-	(77,177)	(77,177)
Accounts payable	7,613	5,405	-	13,018
Accrued liabilities	-	400	-	400
Unearned revenue	(1,791)	-	-	(1,791)
Net cash provided by (used in) operating activities	<u>\$ (32,072)</u>	<u>\$ 1,899</u>	<u>\$ (127,094)</u>	<u>\$ (157,267)</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Fiduciary Funds
December 31, 2016

	General Agency Fund	Payroll Imprest Fund	Library Penal Fines	Michigan Municipal Risk Management Authority	Total
Assets					
Cash and cash equivalents	\$ 1,084,335	\$ 164,414	\$ 102,969	\$ 322,492	\$ 1,674,210
Liabilities					
Undistributed tax collections	\$ 751,336	\$ -	\$ -	\$ -	\$ 751,336
Bonds, restitutions, and payables to others	332,999	164,414	102,969	322,492	922,874
Total liabilities	\$ 1,084,335	\$ 164,414	\$ 102,969	\$ 322,492	\$ 1,674,210

OTSEGO COUNTY, MICHIGAN

Balance Sheet and Statement of Net Position University Center Component Unit December 31, 2016

	University Center	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 569,728	\$ -	\$ 569,728
Investments	498,475	-	498,475
Receivables			
Accounts	11,568	-	11,568
Taxes	644,747	-	644,747
Capital assets being depreciated, net	-	144,896	144,896
Total assets	\$ 1,724,518	144,896	1,869,414
Liabilities			
Accounts payable	\$ 103	-	103
Deferred inflows of resources			
Taxes levied for a subsequent period	664,220	-	664,220
Fund balances			
Restricted	343,145	(343,145)	-
Unassigned	669,970	(669,970)	-
Total fund balances	1,013,115	(1,013,115)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 1,677,438		
Net position			
Investment in capital assets		144,896	144,896
Restricted		343,145	343,145
Unrestricted		717,050	717,050
Total net position		\$ 1,205,091	\$ 1,205,091

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 and Statement of Activities
 University Center Component Unit
 For the Year Ended December 31, 2016

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 630,439	\$ -	\$ 630,439
Investment earnings	9,792	-	9,792
Other	233,432	-	233,432
Total revenues	873,663	-	873,663
Expenditures / expenses			
Current:			
Other functions	765,666	-	765,666
Change in fund balance / net position	107,997	-	107,997
Fund balance / net position, beginning of year	905,118	191,976	1,097,094
Fund balance / net position, end of year	\$ 1,013,115	\$ 191,976	\$ 1,205,091

INTERNAL CONTROL AND COMPLIANCE

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

June 23, 2017

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Otsego County, Michigan* (the "County"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 23, 2017. Our report includes a reference to other auditors who audited the financial statements of Otsego County Road Commission and Otsego County Commission on Aging discretely presented component units, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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.

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

OTSEGO COUNTY, MICHIGAN

Schedule of Findings and Responses
For the Year Ended December 31, 2016

None.

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OTSEGO COUNTY, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2016

2015-001 - Material Audit Adjustments (Repeat finding)

In the prior year, the audited financials required material audit adjustments to adjust the County's general ledger to the appropriate balances. During the 2016 fiscal year audit, there were no material audit adjustments. As such, this finding is considered resolved.

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INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 23, 2017

To the Board of Commissioners
Otsego County, Michigan
225 West Main Street
Gaylord, MI 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 *Otsego County, Michigan* (the "County") as of and for the year ended December 31, 2016, and have issued our report thereon dated June 23, 2017. We did not audit the financial statements of the Otsego County Road Commission or the Otsego County Commission on Aging. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate the Otsego County Road Commission and the Otsego County Commission on Aging, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 13, 2017, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated June 23, 2017.

Other Matters

In addition, we noted a certain other matter. At the end of the County's 2016 fiscal year, the Bus System an enterprise fund, reported ending unrestricted deficit net position. It is the auditor's recommendation that the County prepare a deficit elimination plan.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on April 19, 2017.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the County's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- 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 receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuation of the other postemployment benefits plan are based on historical trends and industry standards.
- Management's fair value determination of investments.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

The schedule of adjustments passed is included with management's written representations in Attachment B to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the County's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment B to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the County's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from 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.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the *Otsego County, Michigan* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

OTSEGO COUNTY

Attachment A - Upcoming Changes in Accounting Standards / Regulations For the December 31, 2016 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the County in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the County. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans *Effective 06/15/2017 (your FY 2017)*

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans.

GASB 75 ■ Postemployment Benefits Other than Pensions *Effective 06/15/2018 (your FY 2018)*

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

GASB 80 ■ Blending Requirements for Certain Component Units *Effective 06/15/2017 (your FY 2017)*

This standard is an amendment to GASB 14, *The Financial Reporting Entity*, and requires blending component units incorporated as not-for-profit corporations in which the government is the sole corporate member. We do not expect this standard to have any significant effect on the County.

GASB 81 ■ Irrevocable Split-Interest Agreements *Effective 12/15/2017 (your FY 2017)*

This standard addresses the accounting for split-interest agreements for which the government serves as the intermediary and/or the beneficiary. It requires governments to record assets, liabilities, and deferred inflows of resources at the inception of the agreement when serving as intermediary, or when the government controls the present service capacity of a beneficial interest. We do not expect this standard to have any significant effect on the County.

GASB 82 ■ Pension Issues *Effective 06/15/2017 (your FY 2017)*

This standard is an amendment to GASB 67/68 to clarify several issues related to pensions. We do not expect this standard to have any significant effect on the County.

OTSEGO COUNTY

■ Attachment A - Upcoming Changes in Accounting Standards / Regulations For the December 31, 2016 Audit

GASB 83 ■ Certain Asset Retirement Obligations *Effective 06/15/2019 (your FY 2019)*

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the County.

GASB 84 ■ Fiduciary Activities *Effective 12/15/2019 (your FY 2019)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the County.

GASB 85 ■ Omnibus 2017 *Effective 06/15/2018 (your FY 2018)*

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the County.

GASB 86 ■ Certain Debt Extinguishment Issues *Effective 06/15/2018 (your FY 2018)*

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position. We do not expect this standard to have any significant effect on the County.



OTSEGO COUNTY, MICHIGAN

Attachment B - Management Representations

For the December 31, 2016 Audit

The following pages contain the written representations that we requested from management.



Otsego County Administration
225 West Main Street
Gaylord, Michigan 49735
Phone (989)731-7520 Fax (989)731-7529

June 23, 2017

Rehmann Robson
902 South Huron
PO Box 250
Cheboygan, MI 49721

This representation letter is provided in connection with your audit of 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 *Otsego County, Michigan*, as of and for the year ended December 31, 2016, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and each major special revenue fund of the County in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 23, 2017:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 13, 2017, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All funds and activities are properly classified.
13. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
14. All components of net position and fund balance classifications have been properly reported.
15. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
16. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. Deposit and investment risks have been properly and fully disclosed.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
20. All required supplementary information is measured and presented within the prescribed guidelines.
21. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
22. We are responsible for the fair presentation of the County's net pension liability as calculated by the Municipal Employees' Retirement System of Michigan (MERS) and related amounts. We provided MERS with complete and accurate information regarding the County's participation in the plan, and have reviewed the information provided by MERS for inclusion in the County's financial statements.

Information Provided

23. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
26. We have no knowledge of any fraud or suspected fraud that affects the County and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
27. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the County's financial statements communicated by employees, former employees, vendors, regulators, or others.
28. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
29. We have disclosed to you the identity of the County's related parties and all the related party relationships and transactions of which we are aware.
30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
31. The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
32. We have disclosed to you all guarantees, whether written or oral, under which the County is contingently liable.
33. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
34. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
35. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
36. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

37. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

38. With respect to the supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Required Supplementary Information

39. With respect to the required supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



John Burt, Administrator



Rachel Frisch, CPA, Director of Finance

OTSEGO COUNTY, MICHIGAN

Schedule of Adjustments Passed (SOAP)
For the December 31, 2016 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
Governmental activities					
Under accrual of deferred contributions to MERS	\$ -	\$ -	\$ (268,215)	\$ -	\$ (268,215)
Over calculation of OPEB contribution	-	-	130,540	-	130,540
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (137,675)</u>	<u>\$ -</u>	<u>\$ (137,675)</u>
Misstatement as a percentage of total program/general revenues - governmental activities	0.00%	0.00%	-1.01%	0.00%	-1.01%
Airport					
Unrecorded fuel purchase	\$ (8,509)	\$ -	\$ -	\$ -	\$ 8,509
Misstatement as a percentage of total revenues - business type activities	-0.27%	0.00%	0.00%	0.00%	0.27%
Component units					
2015 - Understatement of payroll accrual in the Sportsplex Fund	\$ -	\$ -	\$ 9,837	\$ -	\$ 9,837
2015 - Understatement of payroll accrual in the EMS Fund	-	-	17,942	-	17,942
2015 - Understatement of payroll accrual in the UC Man Fund	-	-	6,454	-	6,454
2015 - Understatement of retainage in the Capital Projects Fund	(19,931)	-	-	-	19,931
2016 - Understatement of payroll accrual in the Sportsplex Fund	-	(10,358)	-	-	(10,358)
2016 - Understatement of payroll accrual in the EMS Fund	-	(12,404)	-	-	(12,404)
2016 - Understatement of payroll accrual in the Library Fund	-	(7,103)	-	-	(7,103)
	<u>\$ (19,931)</u>	<u>\$ (29,865)</u>	<u>\$ 34,233</u>	<u>\$ -</u>	<u>\$ 24,299</u>
Misstatement as a percentage of total revenues - component units	-0.13%	-0.20%	0.23%	0.00%	0.16%