COUNTY OF OTSEGO
MICHIGAN

BUDGET AND FINANCE COMMITTEE

REQUEST FOR PROPOSALS (RFP 2019-11)

FOR

PROFESSIONAL AUDITING SERVICES

225 West Main Street
Gaylord, Michigan 49735

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COUNTY OF OTSEGO
REQUEST FOR PROPOSALS

I. INTRODUCTION

A. General Information

The COUNTY OF OTSEGO is requesting proposals from qualified firms of certified public accountants to audit its financial statements for the fiscal year ending December 31, 2019, with the option of auditing its financial statements for each of the three (3) subsequent fiscal years. These audits are to be performed in accordance with generally accepted auditing standards, the standards set forth for financial audits in the General Accounting Office's (GAO) Government Auditing Standards, the provisions of the federal Single Audit Act of 1984 (as amended in 1996) and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance); the OMB Compliance Supplement; the AICPA Audit Guide for Audits of State and Local Governmental Units; and applicable OMB Circulars, audit standards, and audit guides.

There is no expressed or implied obligation for the COUNTY OF OTSEGO to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

Any inquiries concerning the request for proposals prior to or after the proposal conference should be addressed to Mel Maier, Finance Director.

To be considered, six (6) copies of a proposal must be received by Mel Maier, Finance Director, at 225 West Main Street by 11a.m. on December 30, 2019. Proposals will be opened at 12 noon, in Room 212, 225 West Main Street. The COUNTY OF OTSEGO reserves the right to reject any or all proposals submitted.

Proposals will be evaluated by the Budget and Finance Committee.

During the evaluation process, the Budget and Finance Committee and the COUNTY OF OTSEGO reserve the right, where it may serve the COUNTY OF OTSEGO's best interest, to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the discretion of the COUNTY OF OTSEGO or the Budget and Finance Committee, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The COUNTY OF OTSEGO reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the COUNTY OF OTSEGO and the firm selected.

It is anticipated the selection of a firm will be completed by January 28, 2020. Following the notification of the selected firm it is expected a contract will be executed between both parties no later than February 18, 2020.

B. Term of Engagement

A four-year contract is contemplated, subject to the annual review and recommendation of the Budget and Finance Committee, the satisfactory negotiation of terms (including a price acceptable to both the COUNTY OF OTSEGO and the selected firm), the concurrence of the Board of Commissioners, and the annual availability of an appropriation.

C. Subcontracting

Firms submitting proposals are encouraged to consider subcontracting portions of the engagement to small audit firms or audit firms owned and controlled by socially and economically disadvantaged individuals. If this is to be done, that fact, and the name of the proposed subcontracting firms, must be clearly identified in the proposal. Following the award of the audit contract, no additional subcontracting will be allowed without the express prior written consent of the COUNTY OF OTSEGO.

II. NATURE OF SERVICES REQUIRED

A. General

The COUNTY OF OTSEGO is soliciting the services of qualified firms of certified public accountants to audit its financial statements for the fiscal year ending December 31, 2019, with the option to audit the COUNTY OF OTSEGO's financial statements for each of the three (3) subsequent fiscal years. These audits are to be performed in accordance with the provisions contained in this request for proposals.

B. Scope of Work to be Performed

The COUNTY OF OTSEGO desires the auditor to express an opinion on the fair presentation of its basic financial statements in conformity with generally accepted accounting principles.

The auditor shall also be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards.

C. Auditing Standards To Be Followed

To meet the requirements of this request for proposals, the audit shall be performed in accordance with generally accepting auditing standards as set forth by the American Institute of Certified Public Accountants, the standards for financial audits set forth in the U.S. General Accounting Office's Government Auditing Standards, the provisions of the Single Audit Act of 1984 (as amended in 1996) and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance); the OMB Compliance Supplement; the AICPA Audit Guide for Audits of State and Local Governmental Units; and applicable OMB Circulars, audit standards, and audit guides.

D. Reports to be Issued

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue:

1. A report on the fair presentation of the financial statements in conformity with generally accepted accounting principles, including an opinion on the fair presentation of the supplementary schedule of expenditures of federal awards “in relation to” the audited financial statements.

2. A report on compliance and internal control over financial reporting based on an audit of the financial statements

3. A report on compliance and internal control over compliance applicable to each major federal program.

In the required reports on compliance and internal controls, the auditor shall communicate any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions that are also material weaknesses shall be identified as such in the report. Nonreportable conditions discovered by the auditors shall be reported in a separate letter to management, which shall be referred to in the reports on compliance and internal controls.

The report on compliance and internal controls shall include all material instances of noncompliance. All nonmaterial instances of noncompliance shall be reported in a separate management letter, which shall be referred to in the report on compliance and internal controls.

Irregularities and illegal acts. Auditors shall be required to make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which they become aware to the following parties:

Rachel Frisch, CPA	**County Administrator**
Mel Maier	**Finance Director**
Kenneth Borton	**Chairman of the Board**

Reporting to the audit committee. The Budget and Finance Committee shall serve as the audit committee. The primary contact person shall be Mel Maier, Finance Director. Auditors shall assure themselves that the COUNTY OF OTSEGO's Budget and Finance Committee is informed of each of the following:

1. The auditor's responsibility under generally accepted auditing standards

2. Significant accounting policies

3. Management judgments and accounting estimates

4. Significant audit adjustments

5. Other information in documents containing audited financial statements

6. Disagreements with management

7. Management consultation with other accountants

8. Major issues discussed with management prior to retention

9. Difficulties encountered in performing the audit

E. Special Considerations

The COUNTY OF OTSEGO currently anticipates it will prepare one or more official statements in connection with the sale of debt securities which will contain the general purpose financial statements and the auditor's report thereon. The auditor shall be required, if requested by the fiscal advisor and/or the underwriter, to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters."

The Schedule of Expenditures of Federal Awards and related auditor's report, as well as the reports on compliance and internal controls are to be prepared by the auditor and issued as part of the audited financial statements.

A copy of the COUNTY OF OTSEGO's most recent financial statement audit, which includes a list of findings and recommendations, is attached to this document (Appendix A).

The COUNTY OF OTSEGO may request that the auditor maintain fixed asset and depreciation schedules.

F. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of five (5) years, unless the firm is notified in writing by the COUNTY OF OTSEGO of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the following parties or their designees:

COUNTY OF OTSEGO

Federal Cognizant Agency

Parties designated by the federal or state governments or by the COUNTY OF OTSEGO as part of an audit quality review process

Auditors of entities of which the COUNTY OF OTSEGO is a subrecipient of grant funds

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

III. DESCRIPTION OF THE GOVERNMENT

A. Contact Person

The auditor's principal contact with the COUNTY OF OTSEGO will be Mel Maier, Finance Director, who will coordinate the assistance to be provided by the COUNTY OF OTSEGO to the auditor.

B. Background Information

The COUNTY OF OTSEGO serves an area of approximately 527 square miles with a population of approximately 25,000. The COUNTY OF OTSEGO's fiscal year begins on January 1st and ends on December 31st.

The COUNTY OF OTSEGO provides the following services to its citizens:

General government
Public Safety
Recreation and Culture
Economic Development
Transit
Services to the Elderly
Veterans
Housing

The COUNTY OF OTSEGO has a total payroll of approximately $5,000,000, covering 175 employees.

The COUNTY OF OTSEGO is organized into several different departments and agencies. The accounting and financial reporting functions of the COUNTY OF OTSEGO are centralized, with the exception of the Otsego County Library.

More detailed information on the government and its finances can be found in the attached audit report.

C. Fund Structure

The COUNTY OF OTSEGO uses the following fund types and account groups in its financial reporting:

Fund Type	Number of Individual Funds	Number With Legally Adopted Annual Budgets
General fund	4	4
Special revenue funds	23	23
Debt service funds	1	1
Capital projects funds	9	9
Enterprise funds	9	9
Internal service funds	4	4
Pension (and other employee benefits) trust funds	1	0
Agency funds	4	0
Discreetly presented component units	4	4
Blended component units	1	1

D. Budgetary Basis of Accounting

The COUNTY OF OTSEGO prepares its budgets on a basis consistent with generally accepted accounting principles.

E. Federal Awards

During the fiscal year to be audited, the COUNTY OF OTSEGO received federal awards that are consistent with the previous fiscal year.

F. Pension Plans

The COUNTY OF OTSEGO participates in the following pension plan:

Municipal Employees Retirement System (MERS), Multiple Employer Defined Benefit Plan and a MERS Hybrid Plan, which combines the features of a defined benefit and a defined contribution plan.

G. Component Units

The COUNTY OF OTSEGO is defined, for financial reporting purposes, in conformity with the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100. Using these criteria, component units are included in the COUNTY OF OTSEGO's financial statements.

The management of the COUNTY OF OTSEGO identified the following component units for inclusion in the COUNTY OF OTSEGO's financial statements:

Name of Entity	Fiscal Year End	Audited Separately	Audit Firm
Otsego County Bus System	9/30/19	Yes	Rehmann Robson
Otsego County Commission on Aging	9/30/19	Yes	Dan Smith, CPA
Otsego County Rd Commission	12/31/19	Yes	Anderson, Tackman & Company, PLC
Otsego County Sportsplex	12/31/19	No*	
Otsego County Ambulance Corp.	12/31/19	No*	
University Center at Gaylord	12/31/19	No*	

***** This component unit is to be audited as part of the audit of the COUNTY OF OTSEGO's financial statements.

The auditors of the component units are contractually obligated to provide information needed for the audit of the COUNTY OF OTSEGO.

H. Joint Ventures

The COUNTY OF OTSEGO participates in joint ventures with other governments, as follows:

Northwest Michigan Community Health Agency
Michigan Technical Education Center (M-TEC)
North Country Community Mental Health

I. Magnitude of Finance Operations

The finance department is headed by Mel Maier and consists of two (2) employees. The County Administrator serves as the Chief Financial Officer. The principal functions performed and the number of employees assigned to each are as follows:

Function	Number of Employees
Payroll and Accounts Payable	1
Finance Director	1
Administrator	1

J. Computer Systems

The COUNTY OF OTSEGO uses BSA software for its general ledger, accounts payable, and payroll functions. BSA was installed in July 2008.

K. Availability of Prior Audit Reports

The 2018 audit report is included in this document at Appendix A. Interested proposers who wish to review audit reports from prior years should contact Mel Maier. The COUNTY OF OTSEGO will use its best efforts to make prior audit reports available to proposers to aid their response to this request for proposals.

IV. TIME REQUIREMENTS

A. Proposal Calendar

The following is a list of key dates up to and including the date proposals are due to be submitted:

Request for proposal issued	December 2, 2019
Due date for proposals	December 30, 2019
Proposals evaluated by Budget&Finance Cmt	January 15, 2020

B. Notification and Contract Dates

Firm selected by Board of Commissioners	January 28, 2020
Selected firm notified	January 28, 2020
Contract date	no later than February 18, 2020

C. General Timeframe of Audit

The COUNTY OF OTSEGO will have all records ready for audit and all management personnel available to meet with the firm's personnel no later than March 31, 2020.

D. Schedule for the 2019 Fiscal Year Audit

Each of the following should be completed by the auditor no later than the dates indicated.

1. Interim Work

If a subsequent three years of audits are awarded, the auditor and the COUNTY OF OTSEGO will arrange for interim work schedules for each year's audit, no later than November 30 of each year for the corresponding audit.

2. Detailed Audit Plan

The auditor shall provide the COUNTY OF OTSEGO by March 1, 2020, both a detailed audit plan and a list of all schedules to be prepared by the COUNTY OF OTSEGO.

3. Fieldwork

The auditor shall complete all fieldwork by April 30, 2020.

4. Draft Reports

The auditor shall have drafts of the audit report[s] and recommendations to management available for review by the Budget and Finance Committee and the County Administrator by May 15, 2020.

E. Entrance Conferences, Progress Reporting and Exit Conferences

At a minimum, the following conferences should be held no later than the dates indicated on the schedule:

	Week of
Entrance conference with Finance Director and Budget and Finance Committee Chair	April 1, 2020
Progress conference with Finance Director and County Administrator	as necessary
Exit conference with Budget and Finance Committee	May 1, 2020
Presentation of draft audited financial statements to Budget and Finance Committee	May 20, 2020
Final report distributed	May 31, 2020

V. ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

A. Finance Department and Clerical Assistance

The finance department staff and responsible management personnel will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of confirmations will be the responsibility of the COUNTY OF OTSEGO.

In addition, clerical support will be made available to the auditor for the preparation of routine letters and memoranda.

B. Statements and Schedules to be Prepared by the Staff of the COUNTY OF OTSEGO

The staff of the COUNTY OF OTSEGO will prepare schedules as requested by the auditor and will have the schedules completed prior to the commencement of audit fieldwork. A list of requested schedules will be provided by the auditor no later than March 1, 2020.

C. Work Area, Telephones, Photocopying and FAX Machines

The COUNTY OF OTSEGO will provide the auditor with reasonable work space, desks and chairs. The auditor will also be provided with access to one (1) telephone lines, photocopying facilities and FAX machines subject to the following restrictions:

Use of work space, photocopying, and telecommunications equipment is limited to activity related to the County of Otsego's audit.

D. Report Preparation

Report preparation, editing and printing shall be the responsibility of the auditor.

VI. PROPOSAL REQUIREMENTS

A. General Requirements

1. Inquiries

Inquiries concerning the request for proposals and the subject of the request for proposals must be made to:

Mel Maier
Otsego County Finance Director
225 West Main
Gaylord, MI 49735
(989) 731-7527

CONTACT WITH PERSONNEL OF THE COUNTY OF OTSEGO OTHER THAN THE FINANCE DIRECTOR REGARDING THIS REQUEST FOR PROPOSALS MAY BE GROUNDS FOR ELIMINATION FROM THE SELECTION PROCESS.

2. Submission of Proposals

The following material is required to be received by December 30, 2019 by 11 a.m. for a proposing firm to be considered:

a. Six (6) copies of a Technical Proposal to include the following:

i. Title Page

Title page showing the request for proposals subject; the firm's name; the name, address and telephone number of the contact person; and the date of the proposal.

ii. Table of Contents

iii. Transmittal Letter

A signed letter of transmittal briefly stating the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement why the firm believes itself to be best qualified to perform the engagement and a statement that the proposal is a firm and irrevocable offer for a one-month period.

iv. Detailed Proposal

The detailed proposal should follow the order set forth in Section VI B of this request for proposals.

v. Executed copies of Proposer Guarantees and Proposer Warranties, attached to this request for proposal (Appendix B and Appendix C)

b. The proposer shall submit six (6) copies of a dollar cost bid in a separate sealed envelope marked as follows:

SEALED DOLLAR COST BID
PROPOSAL
FOR
COUNTY OF OTSEGO
FOR
PROFESSIONAL AUDITING SERVICES

c. Proposers should send the completed proposal consisting of the two separate envelopes to the following address:

Mel Maier
Otsego County Finance Director
225 West Main Street
Gaylord, MI 49735

B. Technical Proposal

1. General Requirements

The purpose of the Technical Proposal is to demonstrate the qualifications, competence and capacity of the firms seeking to undertake an independent audit of the COUNTY OF OTSEGO in conformity with the requirements of this request for proposals. As such, the substance of proposals will carry more weight than their form or manner of presentation. The Technical Proposal should demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It should also specify an audit approach that will meet the request for proposals requirements.

<u>THERE SHOULD BE NO DOLLAR UNITS OR TOTAL COSTS INCLUDED IN THE TECHNICAL PROPOSAL DOCUMENT</u>.

The Technical Proposal should address all the points outlined in the request for proposals (excluding any cost information which should only be included in the sealed dollar cost bid). The Proposal should be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the request for proposals. While additional data may be presented, the following subjects, items Nos. 2 through 10, must be included. They represent the criteria against which the proposal will be evaluated.

2. Independence

The firm should provide an affirmative statement that is independent of the COUNTY OF OTSEGO as defined by [generally accepted auditing standards/the U.S. General Accounting Office's *Government Auditing Standards*]

The firm also should provide an affirmative statement that it is independent of all of the component units of the COUNTY OF OTSEGO as defined by those same standards.

The firm should also list and describe the firm's (or proposed subcontractors') professional relationships involving the COUNTY OF OTSEGO or any of its [agencies/ agencies or component units/ agencies, component units or primary government] for the past five (5) years, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed audit.

In addition, the firm shall give the COUNTY OF OTSEGO written notice of any professional relationships entered into during the period of this agreement.

3. License to Practice in Michigan

An affirmative statement should be included that the firm and all assigned key professional staff are properly [registered/licensed] to practice in Michigan.

4. Firm Qualifications and Experience

The proposer should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed and the number and nature of the professional staff to be employed in this engagement on a full-time basis and the number and nature of the staff to be so employed on a part-time basis.

If the proposer is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium should be separately identified and the firm that is to serve as the principal auditor should be noted, if applicable.

The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements.

The firm shall also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations.

5. Partner, Supervisory and Staff Qualifications and Experience

Identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement. Indicate whether each such person is registered or licensed to practice as a certified public accountant in Michigan. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit.

Indicate the number of hours the principal/supervisory staff will be on-site during audit fieldwork.

Provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. Indicate how the quality of staff over the term of the agreement will be assured.

The proposer should identify the extent to which staff to be assigned to the audit reflect the COUNTY OF OTSEGO's commitment to Affirmative Action.

Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may also be changed for other reasons with the express prior written permission of the COUNTY OF OTSEGO. However, in either case, the COUNTY OF OTSEGO retains the right to approve or reject replacements.

Consultants and firm specialists mentioned in response to this request for proposal can only be changed with the express prior written permission of the COUNTY OF OTSEGO, which retains the right to approve or reject replacements.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially the same or better qualifications or experience.

6. Prior Engagements with the COUNTY OF OTSEGO

List separately all engagements within the last five years, ranked on the basis of total staff hours, for the COUNTY OF OTSEGO by type of engagement (i.e., audit, management advisory services, other). Indicate the scope of work, date, engagement partners, total hours, the location of the firm's office from which the engagement was performed, and the name and telephone number of the principal client contact.

7. Similar Engagements with Other Government Entities

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements (maximum of 5) performed in the last five years that are similar to the engagement described in this request for proposal. These engagements should be ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact.

8. Specific Audit Approach

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed, to perform the services required in Section II of this request for proposal. In developing the work plan, reference should be made to such sources of information as COUNTY OF OTSEGO's budget and related materials, organizational charts, manuals and programs, and financial and other management information systems.

Proposers will be required to provide the following information on their audit approach:

a. Proposed segmentation of the engagement

b. Level of staff and number of hours to be assigned to each proposed segment of the engagement

NO DOLLARS SHOULD BE INCLUDED IN THE TECHNICAL PROPOSAL

c. Sample size and the extent to which statistical sampling is to be used in the engagement

d. Extent of use of EDP software in the engagement

e. Type and extent of analytical procedures to be used in the engagement

f. Approach to be taken to gain and document an understanding of the COUNTY OF OTSEGO's internal control structure

g. Approach to be taken in determining laws and regulations that will be subject to audit test work

h. Approach to be taken in drawing audit samples for purposes of tests of compliance

9. Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problem and any special assistance that will be requested from the COUNTY OF OTSEGO.

10. Report Format

The proposal should include sample formats for required reports.

NO DOLLARS SHOULD BE INCLUDED IN THE TECHNICAL PROPOSAL

C. Sealed Dollar Cost Bid

1. Total All-Inclusive Maximum Price

The sealed dollar cost bid should contain all pricing information relative to performing the audit engagement as described in this request for proposal. The total all-inclusive maximum price to be bid is to contain all direct and indirect costs including all out-of-pocket expenses.

The COUNTY OF OTSEGO will not be responsible for expenses incurred in preparing and submitting the technical proposal or the sealed dollar cost bid. Such costs should not be included in the proposal.

The first page of the sealed dollar cost bid should include the following information:

a. Name of Firm

b. Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid, and authorized to sign a contract with the COUNTY OF OTSEGO.

c. A Total All-Inclusive Maximum Price for the 2019 engagement.

2. Rates by Partner, Specialist, Supervisory and Staff Level Times Hours Anticipated for Each

The second page of the sealed dollar cost bid should include a schedule of professional fees and expenses, presented in the format provided in the attachment (Appendix D) that supports the total all-inclusive maximum price. The cost of special services described in Section I E of this request for proposal should be disclosed as separate components of the total all-inclusive maximum price.

3. Out-of-pocket Expenses Included in the Total All-inclusive Maximum Price

All out-of-pocket expenses for travel, meals, lodging, etc, must be factored into the standard hourly rate for each individual and will not be billed separately to the COUNTY OF OTSEGO.

4. Rates for Additional Professional Services

If it should become necessary for COUNTY OF OTSEGO to request the auditor to render any additional services to either supplement the services requested in this RFP or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between COUNTY OF OTSEGO and the firm. Any such additional work agreed to between COUNTY OF OTSEGO and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the sealed dollar cost bid.

5. Manner of Payment

Progress payments will be made on the basis of hours of work completed during the course of the engagement and out-of-pocket expenses incurred in accordance with the firm's dollar cost bid proposal. Interim billing shall cover a period of not less than a calendar month. Ten percent (10%) will be withheld from each billing pending delivery of the firm's final reports.

6. If it so chooses, the proposer may provide the COUNTY OF OTSEGO with a cost proposal as outlined above for a four (4)-year period, including the 2019 fiscal year and the three (3) subsequent fiscal years.

VII. EVALUATION PROCEDURES

A. Budget and Finance Committee

Proposals submitted will be evaluated by the COUNTY OF OTSEGO'S seven (7)-member Budget and Finance Committee, consisting of:

Commissioner Kenneth Borton, Chairman of the Board
Commissioner Kenneth Glasser, Budget and Finance Committee Chair
Commissioner Robert Pallarito
Commissioner Paul Liss
Administrator Rachel Frisch, CPA
Treasurer Diann Axford
Finance Director Mel Maier

B. Review of Proposals

The Committee will use a point formula during the review process to score proposals. Each member of the Committee will first score each technical proposal by each of the criteria described in Section VII C below. The full Committee will then convene to review and discuss these evaluations and to combine the individual scores to arrive at a composite technical score for each firm. At this point, firms with an unacceptably low technical score will be eliminated from further consideration.

After the composite technical score for each firm has been established, the sealed dollar cost bid will be opened and additional points will be added to the technical score based on the price bid. The maximum score for price will be assigned to the firm offering the lowest total all-inclusive maximum price. Appropriate fractional scores will be assigned to other proposers.

The COUNTY OF OTSEGO reserves the right to retain all proposals submitted and use any idea in a proposal regardless of whether that proposal is selected.

C. Evaluation Criteria

Proposals will be evaluated using three sets of criteria. Firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and price. The following represent the principal selection criteria which will be considered during the evaluation process.

1. Mandatory Elements

   a. The audit firm is independent and licensed to practice in Michigan

   b. The firm has no conflict of interest with regard to any other work performed by the firm for the COUNTY OF OTSEGO

   c. The firm adheres to the instructions in this request for proposal on preparing and submitting the proposal

   d. The firm submits a copy of its last external quality control review report and the firm has a record of quality audit work.

2. Technical Quality: (Maximum Points - 35)

   a. Expertise and Experience

(1) The firm's past experience and performance on comparable government engagements – a higher score will be assigned to firms that audit other counties
(2) The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation
(3) The availability of the firm's upper management staff during audit fieldwork
(4) The availability of professional staff throughout the year for assistance with and discussion of technical issues.

b. Audit Approach

(1) Adequacy of proposed staffing plan for various segments of the engagement
(2) Adequacy of sampling techniques
(3) Adequacy of analytical procedures

3. Price: (Maximum Points -25)

<u>COST WILL NOT BE THE PRIMARY FACTOR IN THE SELECTION OF AN AUDIT FIRM</u>

D. Final Selection

The COUNTY OF OTSEGO Board of Commissioners will select a firm based upon the recommendation of the Budget and Finance Committee.

It is anticipated that a firm will be selected on January 28, 2020. Following notification of the firm selected, it is expected a contract will be executed between both parties no later than February 18, 2020.

E. Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the COUNTY OF OTSEGO and the firm selected.

The COUNTY OF OTSEGO reserves the right without prejudice to reject any or all proposals.

APPENDICES

A. Copy of 2018 Audited Financial Statements

B. Proposer Guarantees

C. Proposer Warranties

D. Format for Schedule of Professional Fees and Expenses to Support the Total All-inclusive Maximum Price

APPENDIX A

Otsego County, Michigan

Year Ended December 31, 2018

Financial Statements

Rehmann
Business wisdom delivered.

OTSEGO COUNTY, MICHIGAN

ELECTED OFFICERS

For the Year Ended December 31, 2018

BOARD OF COMMISSIONERS

Ken Borton
Chairman

Doug Johnson
Vice Chairman

Robert Pallarito
Paul Liss
Julia Powers
Diane Switalski

Paul Beachnau
Bruce Brown
Ken Glasser

OTHER OFFICIALS

Rachel Frisch
Appointed County Administrator

Diann Axford
Treasurer

Susan DeFeyter
Clerk/Register of Deeds

Matthew Nowicki
Sheriff

Brendan Curran
Prosecuting Attorney

OTSEGO COUNTY, MICHIGAN

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Rehmann

Rehmann Robson

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Cheboygan, MI 49721
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INDEPENDENT AUDITORS' REPORT

July 1, 2019

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, 2018, 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 91 percent, 92 percent, and 70 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 11 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. The financial statements of the Otsego County Commission on Aging were not audited in accordance with *Government Auditing Standards.*

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 *Otsego County, Michigan,* as of December 31, 2018, 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.

Implementation of GASB Statement No. 75

As described in Note 23, the County implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* in the current year. Accordingly, beginning net position of governmental activities and the Road Commission component unit was restated. Our opinion is not modified with respect to this matter.

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 July 1, 2019 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Rehmann Robson LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Otsego County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2018. 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, 2018 are as follows:

Total net position	$34,080,857
Unrestricted net position	7,153,017
Change in net position	236,763
Fund balances, governmental funds	14,452,858
Change in fund balances, governmental funds	(1,501,572)
Fund balance, General fund	5,251,273
(as percentage of General fund expenditures and transfers out)	65%
Unassigned fund balance, General fund	5,069,094
(as percentage of General fund expenditures and transfers out)	63%

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, and recreation and culture. The business-type activities of the County include delinquent tax collection, bus system, airport and other non-major activities.

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. These *component units* include the Otsego County Road Commission, Otsego County Ambulance Corporation, Otsego County Commission on Aging, and the Otsego County Sportsplex. Financial information for 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and change 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 funds balance sheet and in the governmental funds statement of revenues, expenditures and change in fund balances for the General fund, Housing Commission special revenue fund, M-Tec special revenue fund, Library Capital Project Bond 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 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 Revolving fund, the Bus System fund, and the Airport fund, 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 funds. 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, global positioning system, university center metropolitan area network, airport special events, homestead audit, I-75 sign, 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.

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 managements discussion and analysis and the schedules for the County pension and other postemployment benefits plans.

The *combining statements and individual fund financial statements* 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately $34,081,000 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 approximately 52% of total net position. An additional portion of the County's net position, approximately 27%, 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 21%. This net position may be used to meet the government's ongoing obligations to citizens and creditors.

Management's Discussion and Analysis

After taking into consideration an increase of approximately $362,000 related to the implementation of GASB No. 75, the County's total net position increased approximately 1.8%, or approximately $599,000 to approximately $34,080,000 for the year ended December 31, 2018.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	$ 21,996,842	$ 23,309,551	$ 9,248,169	$ 9,278,750	$ 31,245,011	$ 32,588,301
Capital assets, net	12,742,238	10,644,933	6,573,459	6,941,708	19,315,697	17,586,641
Total assets	34,739,080	33,954,484	15,821,628	16,220,458	50,560,708	50,174,942
Deferred outflows of resources						
Deferred pension amounts	1,409,578	2,247,729	140,229	362,472	1,549,807	2,610,201
Deferred other postemployment benefit amounts	97,818	-	-	-	97,818	-
Total deferred outflows	1,507,396	2,247,729	140,229	362,472	1,647,625	2,610,201
Liabilities						
Long-term debt	2,966,308	3,586,425	25,545	-	2,991,853	3,586,425
Other liabilities	9,899,394	10,859,610	751,170	802,940	10,650,564	11,662,550
Total liabilities	12,865,702	14,446,035	776,715	802,940	13,642,417	15,248,975
Deferred inflows of resources						
Taxes levied for a subsequent period	3,847,499	3,676,796	-	-	3,847,499	3,676,796
Deferred pension amounts	432,710	179,383	204,850	197,975	637,560	377,358
Total deferred inflows	4,280,209	3,856,179	204,850	197,975	4,485,059	4,054,154
Net position						
Net investment in capital assets	11,194,681	7,936,598	6,573,459	6,941,708	17,768,140	14,878,306
Restricted for:						
Housing projects	1,639,001	2,477,770	-	-	1,639,001	2,477,770
Public safety	1,919,978	1,946,605	-	-	1,919,978	1,946,605
Recreation and culture	3,652,571	4,864,236	-	-	3,652,571	4,864,236
Other	1,948,150	691,479	-	-	1,948,150	691,479
Unrestricted (deficit)	(1,253,816)	(16,689)	8,406,833	8,640,307	7,153,017	8,623,618
Total net position	$ 19,100,565	$ 17,899,999	$ 14,980,292	$ 15,582,015	$ 34,080,857	$ 33,482,014

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	$ 2,166,057	$ 2,176,080	$ 1,666,509	$ 1,864,859	$ 3,832,566	$ 4,040,939
Operating grants	2,650,211	3,774,437	804,969	1,341,465	3,455,180	5,115,902
Capital grants	69,299	64,830	373,081	-	442,380	64,830
General revenues:						
Property taxes	8,300,297	8,503,537	315,663	293,501	8,615,960	8,797,038
Interest and rentals	355,688	264,373	259,535	143,524	615,223	407,897
Other	1,775,590	2,335,034	284,388	202,457	2,059,978	2,537,491
Total revenues	15,317,142	17,118,291	3,704,145	3,845,806	19,021,287	20,964,097
Expenses						
Legislative	225,294	216,112	-	-	225,294	216,112
Judicial	1,890,595	1,801,679	-	-	1,890,595	1,801,679
General government	4,003,061	4,300,820	-	-	4,003,061	4,300,820
Public safety	4,412,678	3,877,185	-	-	4,412,678	3,877,185
Public works	167,639	374,310	-	-	167,639	374,310
Health and welfare	1,445,356	1,266,892	-	-	1,445,356	1,266,892
Community & economic development	409,862	1,375,521	-	-	409,862	1,375,521
Recreation and culture	2,026,823	1,243,739	-	-	2,026,823	1,243,739
Interest - unallocated	86,457	69,902	-	-	-	-
Delinquent tax revolving	-	-	199,345	177,981	199,345	177,981
Bus System	-	-	1,673,970	1,867,037	1,673,970	1,867,037
Airport	-	-	1,713,366	1,707,350	1,713,366	1,707,350
Other business-type activities	-	-	546,238	370,998	546,238	370,998
Total expenses	14,667,765	14,526,160	4,132,919	4,123,366	18,714,227	18,579,624
Change in net position, before contributions and transfers	649,377	2,592,131	(428,774)	(277,560)	307,060	2,384,473
Contribution to other governmental units	-	(153,900)	-	-	-	(153,900)
Transfers	189,109	407,286	(172,949)	(420,421)	16,160	(13,135)
Change in net position	838,486	2,845,517	(601,723)	(697,981)	236,763	2,147,536
Net position:						
Beginning of year	17,899,999	15,054,482	15,582,015	16,279,996	33,482,014	31,334,478
Restatement for implementation of GASB 75	362,080	-	-	-	362,080	-
End of year	$ 19,100,565	$ 17,899,999	$ 14,980,292	$ 15,582,015	$ 34,080,857	$ 33,482,014

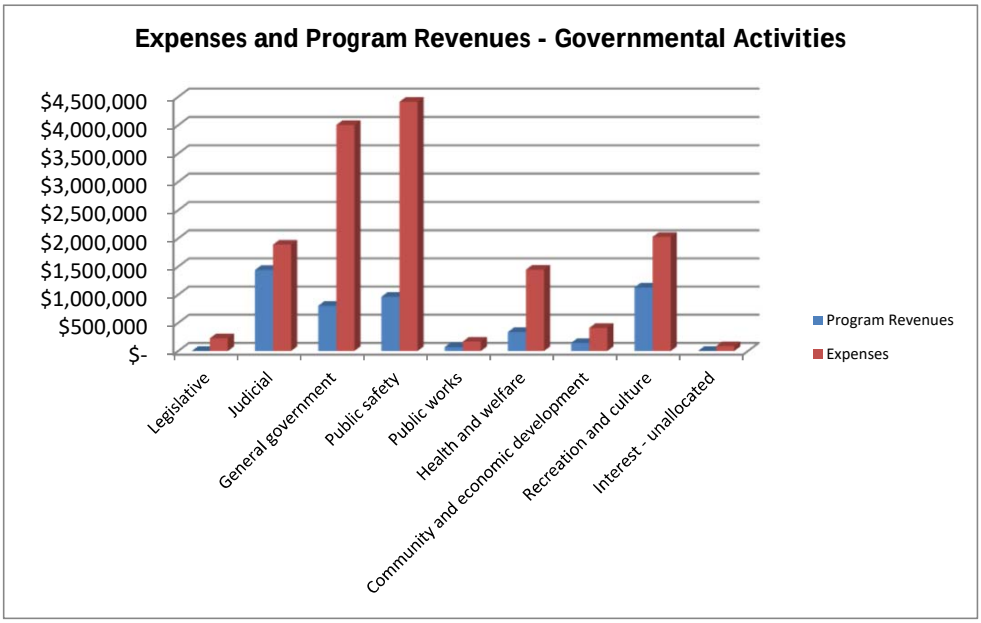
Management's Discussion and Analysis

Governmental activities

Governmental activities increased the County's net position by approximately $838,000 after consideration of the increase of approximately $362,000 due to the implementation of GASB No. 75. Overall revenues decreased by approximately $1,801,000. The most significant decrease in revenues was operating grants, which decreased by approximately $1,124,000, primarily due to the County receiving approximately $742,000 in donated capital additions in the previous year. The other significant decrease in revenues is in other revenues, primarily due to an increase in other revenues in the previous year for the transition of the University Center management agreement between the County and Kirtland Community College. The net decrease in governmental expenses from 2017 to 2018 was approximately $142,000, primarily due to the reclassification of contributions to other governmental units to recreation and culture. General government expenses decreased approximately $243,000 due to the completion of the Sportsplex tennis court project in 2017. Public safety expenses increased approximately $535,000 primarily due to capital outlay, including equipment purchases, pension expense, employee wages and inmate healthcare costs. Recreation and culture expenses increased approximately $783,000 primarily due to the library building expansion project, trail head expansion project and the reclassification of contributions to the DNR. The most significant governmental activity expense decrease was in the community and economic development due to the MTEC tax collection disbursements being recorded as a fiduciary activity rather than a governmental activity.

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 activity 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. Expenses include the management, operations, and maintenance of the Bus System. The bus system's operating revenues decreased approximately $180,000 in federal and state grants, due to a decrease in reimbursable operating expenditures including salaries and fringes, and capital contributions increased approximately $373,000 due to federal and state capital assistance for the purchase of four transit busses.
- Airport - this activity accounts for the financial activity of the Gaylord Regional Airport. The main sources of revenue are fuel sales and an annual General Fund appropriation. Expenses include the management, operations, and maintenance of the airport. The airport's nonoperating revenues decreased approximately $357,000 in federal and state grants due to the completion of the taxi lane project in 2017.

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.

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.

The fund balance of the General fund increased by approximately $383,000 from the prior year. The increase is primarily due to actual judicial expenses being less than management's budgeted amounts. The Circuit Court saw he most significant reduction of expenses compared to budgeted, due to payroll and applicable fringes being less than anticipated. Unassigned fund balance of approximately $5,069,000, is available for spending at the County's discretion.

The County's Housing Commission fund balance at December 31, 2018 was approximately $113,000; a decrease of approximately $37,000 from the prior year. The change in fund balance is attributable to a decrease in revenue by approximately $158,000 due to a decrease in operating grants, which was offset by a decrease in expenditures of approximately $122,000 due to a decrease in housing rehabilitation costs.

The County's M-TEC fund balance at December 31, 2018 remained at $0 for the 2018 fiscal year. Revenues and expenditures decreased by approximately $736,000 from the previous year due to the M-TEC tax levy being recorded in a trust and agency fund during the 2018 fiscal year.

The County's Library Capital Projects Bond fund balance at December 31, 2018 was approximately $554,000 which decreased approximately $992,000 from the prior year. The change in fund balance is primarily attributable to an increase in construction expenditures of approximately $2,135,000, which was offset by an increase in transfers in of $1,327,000.

The County's Debt Service fund balance at December 31, 2018 remained at $0 for the 2018 fiscal year. Revenues and expenditures decreased approximately $45,000 from the previous year as a result of a reduction in debt payments due.

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.

Management's Discussion and Analysis

Unrestricted net position of the enterprise funds at year end amounted to approximately $8,407,000. The enterprise funds had a decrease in net position for the year of approximately $602,000. The net position in the Delinquent Tax Revolving fund decreased approximately $239,000, primarily due to the transfer out of approximately $352,000 from the Delinquent Tax Revolving Fund for various uses, which was primarily a distribution of the Library Bond tax millage.

Budgetary Highlights

General fund

The revenue increased 1.4 percent from the original to the final budgeted amounts. The expenditures increased 3.3 percent from the original to the final amended budgets.

Overall during the year, General fund revenues were in line with the budgetary estimates and came in higher than anticipated by approximately $48,000 or .6 percent. Overall expenditures were under budget by approximately $499,000 or 6.3 percent as a result of the County not needing to fully use budgeted contingency and management's commitment to continually reviewing expenses.

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.

	Capital Assets (Net of Depreciation, where applicable)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 2,436,427	$ 2,282,072	$ 99,998	$ 99,998	$ 2,536,425	$ 2,382,070
Construction in progress	2,771,224	522,956	-	-	2,771,224	522,956
Buildings	5,592,458	5,700,422	1,217,348	1,322,856	6,809,806	7,023,278
Furniture and fixtures	87,081	129,635	-	-	87,081	129,635
Equipment	1,658,028	1,752,442	111,655	92,329	1,769,683	1,844,771
Vehicles	178,856	237,245	337,545	102,807	516,401	340,052
Infrastructure	18,164	20,161	4,806,913	5,323,718	4,825,077	5,343,879
Total capital assets, net	$12,742,238	$10,644,933	$ 6,573,459	$ 6,941,708	$19,315,697	$17,586,641

Construction in progress for the 2018 fiscal year, in the amount of approximately $2,771,000, includes $2,248,000 in current year additions, consisting of the library building expansion project, trail head expansion project, and the Groen Nature Preserve project. The remaining $786,000 in governmental activities additions consisted of land, building improvements, equipment and a vehicle. The $439,000 in business-type activities additions consisted primarily of four transit busses.

Management's Discussion and Analysis

Long-term Debt. At the end of the current year, the County had total installment debt and compensated absences outstanding of approximately $2,966,000.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment debt	$ 2,756,563	$ 3,398,335	$ -	$ -	$ 2,756,563	$ 3,398,335
Premium on bond issuance	14,038	-	-	-	14,038	-
Compensated absences	195,707	170,542	-	-	195,707	170,542
Total	$ 2,966,308	$ 3,568,877	$ -	$ -	$ 2,966,308	$ 3,568,877

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 record the actuarially computed liability for pension. The total liability is approximately $22,609,000. The estimated annual contribution required to fund that liability is approximately $934,000. The net pension liability at the end of the fiscal year amounted to approximately $7,385,000. This is a significant liability; however, due to additional contributions over the actuarially determined contribution made by the County, this liability is anticipated to decrease over time.

The County is required to record the total liability for other postemployment healthcare benefits (OPEB). The total OPEB liability is approximately $1,931,000. If the County were required to fund that liability, the estimated annual contribution would be approximately $156,000. This is a significant liability; however, due to changes in benefit levels for new employees, this liability is anticipated to decrease over time.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the County's 2019 budget:

- Property tax revenues are projected to increase approximately 2.5%.

Highlight of the 2019 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 Ms. Rachel Frisch, 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, 2018

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 9,182,516	$ 2,054,542	$ 11,237,058	$ 2,175,674
Investments	5,475,774	5,576,803	11,052,577	2,279,669
Receivables, net	6,439,765	1,325,164	7,764,929	5,348,960
Prepaid items	119,487	3,025	122,512	-
Inventory	20,432	54,479	74,911	871,442
Internal balances	(39,156)	39,156	-	-
Advance to component unit	143,024	195,000	338,024	-
Lease receivable from component unit	655,000	-	655,000	-
Capital assets not being depreciated	5,207,651	99,998	5,307,649	11,666,767
Capital assets being depreciated, net	7,534,587	6,473,461	14,008,048	25,976,272
Total assets	34,739,080	15,821,628	50,560,708	48,318,784
Deferred outflows of resources				
Deferred pension amounts	1,409,578	140,229	1,549,807	789,530
Deferred other postemployment benefit amounts	97,818	-	97,818	-
Total deferred outflows	1,507,396	140,229	1,647,625	789,530
Liabilities				
Accounts payable and accrued liabilities	762,233	359,607	1,121,840	434,656
Advance from other government units	-	-	-	455,897
Advance from primary government	-	-	-	338,024
Unearned revenue	210,532	2,204	212,736	24,427
Long-term debt:				
Due within one year	668,334	-	668,334	67,818
Due in more than one year	2,297,974	25,545	2,323,519	1,199,411
Net pension liability, due in more than one year	6,995,928	389,359	7,385,287	5,644,296
Total other postemployment benefits liability, due in more than one year	1,930,701	-	1,930,701	5,678,335
Total liabilities	12,865,702	776,715	13,642,417	13,842,864
Deferred inflows of resources				
Taxes levied for a subsequent period	3,847,499	-	3,847,499	2,543,027
Deferred pension amounts	432,710	204,850	637,560	-
Other state grants	-	-	-	1,087,745
Total deferred inflows	4,280,209	204,850	4,485,059	3,630,772
Net position				
Net investment in capital assets	11,194,681	6,573,459	17,768,140	36,628,028
Restricted for:				
Housing projects	1,639,001	-	1,639,001	-
Public safety	1,919,978	-	1,919,978	-
Recreation and culture	3,652,571	-	3,652,571	-
Other (Note 21)	1,948,150	-	1,948,150	44,043
Unrestricted (deficit)	(1,253,816)	8,406,833	7,153,017	(5,037,393)
Total net position	$ 19,100,565	$ 14,980,292	$ 34,080,857	$ 31,634,678

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

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues
Primary government					
Governmental activities:					
Legislative	$ 225,294	$ -	$ -	$ -	$ (225,294)
Judicial	1,890,595	562,024	877,216	-	(451,355)
General government	4,003,061	534,675	268,708	-	(3,199,678)
Public safety	4,412,678	809,161	155,042	-	(3,448,475)
Public works	167,639	-	-	69,299	(98,340)
Health and welfare	1,445,356	-	337,944	-	(1,107,412)
Community and economic development	409,862	32,945	110,644	-	(266,273)
Recreation and culture	2,026,823	227,252	900,657	-	(898,914)
Interest - unallocated	86,457	-	-	-	(86,457)
Total governmental activities	14,667,765	2,166,057	2,650,211	69,299	(9,782,198)
Business-type activities:					
Delinquent Tax Revolving	199,345	101,470	-	-	(97,875)
Bus System 9/30/2018	1,673,970	278,308	804,969	373,081	(217,612)
Airport	1,713,366	929,347	-	-	(784,019)
Other	546,238	357,384	-	-	(188,854)
Total business-type activities	4,132,919	1,666,509	804,969	373,081	(1,288,360)
Total primary government	$ 18,800,684	$ 3,832,566	$ 3,455,180	$ 442,380	$ (11,070,558)
Component units					
Road Commission	$ 8,896,471	$ 2,264,312	$ 4,704,167	$ 3,638,474	$ 1,710,482
Ambulance	2,682,331	1,611,988	-	-	(1,070,343)
Commission on Aging 9/30/2018	1,948,560	69,647	588,582	-	(1,290,331)
Sportsplex	855,274	461,085	-	10,000	(384,189)
Total component units	$ 14,382,636	$ 4,407,032	$ 5,292,749	$ 3,648,474	$ (1,034,381)

Continued…

Statement of Activities

For the Year Ended December 31, 2018

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net position				
Net expenses	$ (9,782,198)	$ (1,288,360)	$ (11,070,558)	$ (1,034,381)
General revenues:				
Property taxes	8,300,297	315,663	8,615,960	3,756,698
Interest and rentals	355,688	259,535	615,223	24,189
Other revenue	1,775,590	284,388	2,059,978	1,275,216
Gain on sale of capital assets	-	-	-	77,539
Transfers	189,109	(172,949)	16,160	-
Total general revenues and transfers	10,620,684	686,637	11,307,321	5,133,642
Change in net position	838,486	(601,723)	236,763	4,099,261
Net position, beginning of year, as restated	18,262,079	15,582,015	33,844,094	27,535,417
Net position, end of year	$ 19,100,565	$ 14,980,292	$ 34,080,857	$ 31,634,678

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, 2018

	General Fund	Housing Commission Special Revenue Fund	M-TEC Special Revenue Fund
Assets			
Cash and cash equivalents	$ 2,272,810	$ 173,210	$ -
Investments	2,664,852	-	-
Receivables:			
Accounts	93,261	-	-
Property taxes	240,249	-	811,209
Due from other governments	116,183	-	-
Loans	-	1,525,999	-
Due from other funds	124,209	-	-
Advances to other funds	-	-	-
Advances to component units	-	-	-
Lease receivable from component unit	-	-	-
Inventories	20,107	-	-
Other assets	12,072	-	-
Total assets	$ 5,543,743	$ 1,699,209	$ 811,209
Liabilities			
Accounts payable	$ 194,288	$ 130	$ -
Accrued liabilities	65,654	78	-
Due to other funds	9,622	60,000	-
Due to other governments	-	-	-
Unearned revenue	-	-	-
Total liabilities	269,564	60,208	-
Deferred inflows of resources			
Taxes levied for a subsequent period	-	-	811,209
Unavailable resources	22,906	1,525,999	-
Total deferred inflows of resources	22,906	1,525,999	811,209
Fund balances			
Nonspendable	32,179	-	-
Restricted	-	113,002	-
Committed	150,000	-	-
Unassigned	5,069,094	-	-
Total fund balances	5,251,273	113,002	-
Total liabilities, deferred inflows of resources, and fund balances	$ 5,543,743	$ 1,699,209	$ 811,209

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

Library Capital Projects Bond Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 669,183	$ -	$ 5,722,463	$ 8,837,666
-	-	2,710,922	5,375,774
-	-	303,883	397,144
-	-	3,036,428	4,087,886
-	-	300,200	416,383
-	-	-	1,525,999
-	-	-	124,209
-	-	20,844	20,844
-	-	143,024	143,024
-	655,000	-	655,000
-	-	-	20,107
-	-	7,560	19,632
$ 669,183	$ 655,000	$ 12,245,324	$ 21,623,668
$ 115,177	$ -	$ 320,972	$ 630,567
-	-	18,938	84,670
-	-	114,587	184,209
-	-	9,428	9,428
-	-	210,532	210,532
115,177	-	674,457	1,119,406
-	-	3,036,290	3,847,499
-	655,000	-	2,203,905
-	655,000	3,036,290	6,051,404
-	-	7,560	39,739
554,006	-	6,295,612	6,962,620
-	-	2,248,661	2,398,661
-	-	(17,256)	5,051,838
554,006	-	8,534,577	14,452,858
$ 669,183	$ 655,000	$ 12,245,324	$ 21,623,668

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Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2018

Fund balances - total governmental funds	$ 14,452,858
Amounts reported for *governmental activities* in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	
Capital assets not being depreciated	5,207,651
Capital assets being depreciated, net	7,534,587
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	1,525,999
Unavailable resources from lease receivable	655,000
Unavailable resources from taxes	22,906
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.	526,640
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and notes payable	(2,770,601)
Compensated absences	(195,707)
Accrued interest on long-term debt	(6,825)
Certain pension and OPEB-related amounts, such as the net pension liability, total OPEB liability, and related 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	(6,995,928)
Net other postemployment benefits liability	(1,930,701)
Deferred outflows related to the net pension liability	1,132,752
Deferred outflows related to the other postemployment benefits liability	97,818
Deferred inflows related to the net pension liability	(155,884)
Net position of governmental activities	$ 19,100,565

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

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds
For the Year Ended December 31, 2018

	General Fund	Housing Commission Special Revenue Fund	M-TEC Special Revenue Fund
Revenues			
Taxes	$ 5,161,173	$ -	$ 18,971
Licenses and permits	36,843	-	-
Federal sources	83,924	109,504	-
State sources	1,325,491	-	-
Local sources	35,109	1,140	-
Charges for services	1,052,150	-	-
Fines and forfeits	13,437	-	-
Interest and rentals	222,403	201	-
Other	451,015	10,645	5,555
Total revenues	8,381,545	121,490	24,526
Expenditures			
Current:			
Legislative	225,294	-	-
Judicial	1,381,030	-	-
General government	2,262,259	-	-
Public safety	2,347,218	-	-
Public works	-	-	-
Health and welfare	602,601	-	-
Community and economic development	95,496	158,723	24,526
Recreation and culture	-	-	-
Other	528,105	-	-
Debt service:			
Principal	10,741	-	-
Interest and fiscal charges	848	-	-
Capital outlay	-	-	-
Total expenditures	7,453,592	158,723	24,526
Revenues over (under) expenditures	927,953	(37,233)	-
Other financing sources (uses)			
Transfers in	93,284	256	-
Transfers out	(638,639)	-	-
Total other financing sources (uses)	(545,355)	256	-
Net change in fund balances	382,598	(36,977)	-
Fund balances, beginning of year	4,868,675	149,979	-
Fund balances, end of year	$ 5,251,273	$ 113,002	$ -

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

Library Capital Projects Bond Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 13	$ -	$ 3,120,140	$ 8,300,297
-	-	-	36,843
-	-	320,742	514,170
-	-	580,244	1,905,735
-	69,450	41,200	146,899
-	-	1,077,064	2,129,214
-	-	169,520	182,957
-	-	129,180	351,784
-	-	1,290,218	1,757,433
13	69,450	6,728,308	15,325,332
-	-	-	225,294
-	-	448,956	1,829,986
-	-	1,059,961	3,322,220
-	-	1,815,777	4,162,995
-	-	-	-
-	-	840,911	1,443,512
-	-	-	278,745
-	-	1,475,664	1,475,664
11,734	-	-	539,839
-	615,000	16,031	641,772
-	89,813	1,762	92,423
2,373,066	-	631,017	3,004,083
2,384,800	704,813	6,290,079	17,016,533
(2,384,787)	(635,363)	438,229	(1,691,201)
1,393,163	635,363	681,382	2,803,448
-	-	(1,975,180)	(2,613,819)
1,393,163	635,363	(1,293,798)	189,629
(991,624)	-	(855,569)	(1,501,572)
1,545,630	-	9,390,146	15,954,430
$ 554,006	$ -	$ 8,534,577	$ 14,452,858

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2018

Net change in fund balances - total governmental funds	$ (1,501,572)
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 useful lives and reported as depreciation expense.	
Acquisition/construction of capital assets	3,033,859
Depreciation expense	(936,554)
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	(111,792)
Net change in unavailable resources from lease receivable	(35,000)
Net change in unavailable resources from taxes	22,906
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 debt	641,772
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.	
Amortization of issuance premium	3,510
Change in accrued interest payable on long-term debt	1,608
Change in the net pension liability and related deferred amounts	(291,061)
Change in the total other postemployment benefits liability and related deferred amounts	16,069
Change in compensated absences	(25,165)
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	19,906
Change in net position of governmental activities	$ 838,486

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

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 5,182,712	$ 5,182,712	$ 5,161,173	$ (21,539)
Licenses and permits	34,426	39,387	36,843	(2,544)
Federal sources	72,600	76,200	83,924	7,724
State sources	1,338,932	1,405,665	1,325,491	(80,174)
Local sources	28,500	36,000	35,109	(891)
Charges for services	954,980	980,697	1,052,150	71,453
Fines and forfeits	12,050	12,050	13,437	1,387
Interest and rentals	165,000	165,000	222,403	57,403
Other	430,055	435,336	451,015	15,679
Total revenues	8,219,255	8,333,047	8,381,545	48,498
Expenditures				
Current:				
Legislative:				
Board of Commissioners	233,177	233,008	225,294	(7,714)
Judicial:				
Circuit court	1,201,968	1,208,546	1,018,543	(190,003)
Lien fees	15,500	15,500	9,800	(5,700)
Drug court	143,786	144,286	123,308	(20,978)
RDSS transport	15,000	15,000	8,495	(6,505)
District court	34,912	34,912	7,372	(27,540)
Jury commission	44,725	44,725	36,848	(7,877)
Probate court	175,020	175,220	173,487	(1,733)
Probation/parole	1,500	1,500	1,184	(316)
Family counseling	4,000	4,000	1,993	(2,007)
Total judicial	1,636,411	1,643,689	1,381,030	(262,659)
General government:				
Administrative services	268,425	268,425	263,425	(5,000)
Buildings and grounds	290,000	290,000	290,000	-
Clerk and register of deeds	303,484	306,174	299,956	(6,218)
Audit services	12,508	12,508	12,507	(1)
IT department	97,212	97,212	85,110	(12,102)
Equalization	219,454	219,679	216,324	(3,355)
Treasurer	148,596	148,712	135,645	(13,067)
Cooperative extension	62,083	62,176	61,961	(215)
Elections	21,440	28,497	27,787	(710)
Prosecuting attorney	612,661	614,351	597,591	(16,760)
Register of deeds	63,888	64,063	58,598	(5,465)
Legal defense	35,000	71,300	67,154	(4,146)
Human resources	94,947	94,947	94,947	-
Surveyor	200	200	200	-
Soil conservation	4,000	4,000	4,000	-
Survey and remonumentation	47,055	47,055	47,054	(1)
Total general government	2,280,953	2,329,299	2,262,259	(67,040)

Continued…

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public safety:				
Sheriff	$ 986,413	$ 986,251	$ 976,433	$ (9,818)
Civil division	57,236	57,236	41,018	(16,218)
School resource officer	-	25,815	20,805	(5,010)
SANE	20,000	20,000	20,000	-
Justice training	3,000	3,000	100	(2,900)
Marine safety	4,886	8,486	4,134	(4,352)
Motorcycle safety education	51,200	51,200	43,548	(7,652)
Snowmobile	8,686	8,686	522	(8,164)
Secondary road patrol	89,514	97,720	97,695	(25)
ORV	7,386	7,426	13,691	6,265
Jail	1,078,595	1,110,272	1,099,272	(11,000)
Emergency	30,000	30,000	30,000	-
Total public safety	2,336,916	2,406,092	2,347,218	(58,874)
Public works:				
Drains	6,000	6,000	-	(6,000)
Health and welfare:				
Communicable diseases	500	500	500	-
Medical examiner	108,600	143,601	138,913	(4,688)
District health	228,611	228,311	216,579	(11,732)
Mental health	94,003	94,003	94,003	-
Soldiers and sailors relief	5,000	6,650	5,620	(1,030)
Veteran's burial	6,150	6,150	5,720	(430)
Veteran's affairs	59,757	60,328	58,336	(1,992)
Substance abuse	82,439	83,422	82,930	(492)
Total health and welfare	585,060	622,965	602,601	(20,364)
Community and economic development:				
Planning and zoning	91,171	96,282	95,496	(786)
Other:				
Appropriations	23,338	23,338	23,338	-
Bonds and insurance	220,000	220,000	218,967	(1,033)
Retiree insurance	64,447	64,447	59,071	(5,376)
Additional pension contributions	54,300	204,469	204,469	-
Other	121,418	44,894	22,260	(22,634)
Total other	483,503	557,148	528,105	(29,043)
Capital outlay	36,500	48,100	-	(48,100)
Debt service:				
Principal payments	12,000	10,325	10,741	416
Interest and fiscal charges	-	-	848	848
Total debt service	12,000	10,325	11,589	1,264
Total expenditures	7,701,691	7,952,908	7,453,592	(499,316)
Revenues over expenditures	517,564	380,139	927,953	547,814

Continued...

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Transfers in	$ 65,484	$ 93,349	$ 93,284	$ (65)
Transfers out	(588,048)	(638,639)	(638,639)	-
Total other financing sources (uses)	(522,564)	(545,290)	(545,355)	(65)
Net change in fund balance	(5,000)	(165,151)	382,598	547,749
Fund balance, beginning of year	4,868,675	4,868,675	4,868,675	-
Fund balance, end of year	$ 4,863,675	$ 4,703,524	$ 5,251,273	$ 547,749

Concluded

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

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - Housing Commission Special Revenue Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal sources	$ 65,000	$ 65,000	$ 109,504	$ 44,504
Local sources	65,000	65,000	1,140	(63,860)
Interest and rentals	300	300	201	(99)
Other	136,950	136,950	10,645	(126,305)
Total revenues	267,250	267,250	121,490	(145,760)
Expenditures				
Current:				
Community and economic development	278,727	278,953	158,723	(120,230)
Revenues over (under) expenditures	(11,477)	(11,703)	(37,233)	(25,530)
Other financing sources				
Transfers in	-	226	256	30
Net change in fund balance	(11,477)	(11,477)	(36,977)	(25,500)
Fund balance, beginning of year	149,979	149,979	149,979	-
Fund balance, end of year	$ 138,502	$ 138,502	$ 113,002	$ (25,500)

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

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - M-TEC Special Revenue Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ -	$ 21,269	$ 18,971	$ (2,298)
Other	-	5,555	5,555	-
Total revenues	-	26,824	24,526	(2,298)
Expenditures				
Current:				
Community and economic development	-	26,824	24,526	(2,298)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	$ -	$ -	$ -	$ -

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

OTSEGO COUNTY, MICHIGAN

Statement of Net Position

Proprietary Funds
December 31, 2018

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2018	Airport
Assets			
Current assets:			
Cash and cash equivalents	$ 1,346,042	$ 223,723	$ 44,788
Investments	3,963,402	-	-
Receivables:			
Accounts	1,842	5,479	70,664
Taxes	1,023,419	1,630	-
Interest	143,330	-	-
Due from other governments	-	75,868	-
Due from other funds	60,000	-	-
Advances to component units	195,000	-	-
Inventories	-	-	54,479
Other assets	-	-	-
Total current assets	6,733,035	306,700	169,931
Noncurrent assets:			
Capital assets not being depreciated	-	99,998	-
Capital assets being depreciated, net	-	536,978	5,875,001
Total noncurrent assets	-	636,976	5,875,001
Total assets	6,733,035	943,676	6,044,932
Deferred outflows of resources			
Deferred pension amounts	-	140,229	-
Liabilities			
Current liabilities:			
Accounts payable	16,892	46,136	15,109
Accrued liabilities	923	-	-
Due to other governments	-	223,518	-
Unearned revenue	-	1,630	-
Total current liabilities	17,815	271,284	15,109
Noncurrent liabilities:			
Advances from other funds	-	-	20,844
Long term debt:			
Accrued compensated absences - due in more than one year	-	25,545	-
Net pension liability	-	389,359	-
Total noncurrent liabilities	-	414,904	20,844
Total liabilities	17,815	686,188	35,953
Deferred inflows of resources			
Deferred pension amounts	-	204,850	-
Net position			
Investment in capital assets	-	636,976	5,875,001
Unrestricted (deficit)	6,715,220	(444,109)	133,978
Total net position	$ 6,715,220	$ 192,867	$ 6,008,979

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

		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 439,989	$ 2,054,542	$ 344,850
1,613,401	5,576,803	100,000
2,932	80,917	12,353
-	1,025,049	-
-	143,330	-
-	75,868	-
-	60,000	-
-	195,000	-
-	54,479	325
3,025	3,025	99,855
2,059,347	9,269,013	557,383
-	99,998	-
61,482	6,473,461	-
61,482	6,573,459	-
2,120,829	15,842,472	557,383
-	140,229	-
56,106	134,243	29,330
923	1,846	1,413
-	223,518	-
574	2,204	-
57,603	361,811	30,743
-	20,844	-
-	25,545	-
-	389,359	-
-	435,748	-
57,603	797,559	30,743
-	204,850	-
61,482	6,573,459	-
2,001,744	8,406,833	526,640
$ 2,063,226	$ 14,980,292	$ 526,640

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2018	Airport
Operating revenues			
Local sources	$ -	$ -	$ -
Charges for services	101,470	278,308	929,347
Interest and penalties	276,761	-	-
Other	-	-	6,299
Total operating revenues	378,231	278,308	935,646
Operating expenses			
Salaries and fringes	50,735	1,116,984	143,452
Contractual services	121,171	-	173,578
Materials and supplies	4,662	-	681,260
Equipment repair and maintenance	-	-	-
Utilities	-	-	-
Depreciation	-	200,712	594,221
Other	22,777	356,274	120,855
Total operating expenses	199,345	1,673,970	1,713,366
Operating income (loss)	178,886	(1,395,662)	(777,720)
Nonoperating revenues (expenses)			
Property taxes levied	-	315,663	-
Federal grants	-	258,567	-
State grants	-	546,402	-
Investment (losses) earnings	(65,942)	-	3,727
Other revenues	-	21,276	-
Total nonoperating revenues	(65,942)	1,141,908	3,727
Income (loss) before transfers	112,944	(253,754)	(773,993)
Other financing sources (uses)			
Transfers in	-	16,160	150,175
Transfers out	(352,100)	-	-
Capital contribution	-	373,081	-
Total other financing sources (uses)	(352,100)	389,241	150,175
Change in net position	(239,156)	135,487	(623,818)
Net position, beginning of year	6,954,376	57,380	6,632,797
Net position, end of year	$ 6,715,220	$ 192,867	$ 6,008,979

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

		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 15,000	$ 15,000	$ -
357,384	1,666,509	2,253,032
-	276,761	-
-	6,299	-
372,384	1,964,569	2,253,032
54,643	1,365,814	1,724,084
162,399	457,148	252,934
71,542	757,464	22,655
-	-	7,002
-	-	214,528
12,301	807,234	-
245,353	745,259	15,308
546,238	4,132,919	2,236,511
(173,854)	(2,168,350)	16,521
-	315,663	-
-	258,567	-
-	546,402	-
44,989	(17,226)	3,905
241,813	263,089	-
286,802	1,366,495	3,905
112,948	(801,855)	20,426
31,000	197,335	-
(18,184)	(370,284)	(520)
-	373,081	-
12,816	200,132	(520)
125,764	(601,723)	19,906
1,937,462	15,582,015	506,734
$ 2,063,226	$ 14,980,292	$ 526,640

OTSEGO COUNTY, MICHIGAN

Statement of Cash Flows

Proprietary Funds
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2018	Airport
Cash flows from operating activities			
Received from customers	$ 526,059	$ 296,070	$ 885,489
Received from interfund services	-	-	-
Payments for goods and services	(144,302)	(357,326)	(981,400)
Payments to employees	(50,635)	(1,081,134)	(143,984)
Net cash provided by (used in) operating activities	331,122	(1,142,390)	(239,895)
Cash flows from noncapital financing activities			
Property tax	-	315,397	-
Federal grants	-	264,417	-
State grants	-	682,673	-
Other receipts	-	21,276	-
Repayment on advance from other funds	-	(20,000)	(11,275)
Transfers in	-	16,160	150,175
Transfers out	(352,100)	-	-
Net cash provided by (used in) noncapital financing activities	(352,100)	1,279,923	138,900
Cash flows from capital and related financing activities			
Purchase of capital assets	-	(403,158)	(35,827)
Federal capital grants	-	298,465	-
State capital grants	-	74,616	-
Net cash used in investing activities	-	(30,077)	(35,827)
Cash flows from investing activities			
Proceeds from sale of investments	966,224	-	-
Purchase of investments	-	-	-
Interest received on investments	(65,942)	-	3,727
Net cash provided by (used in) investing activities	900,282	-	3,727
Net change in cash and cash equivalents	879,304	107,456	(133,095)
Cash and cash equivalents, beginning of year	466,738	116,267	177,883
Cash and cash equivalents, end of year	$ 1,346,042	$ 223,723	$ 44,788

Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 378,239	$ 2,085,857	$ -
-	-	2,252,687
(438,400)	(1,921,428)	(1,626,478)
(54,550)	(1,330,303)	(547,292)
(114,711)	(1,165,874)	78,917
-	315,397	-
-	264,417	-
-	682,673	-
241,813	263,089	-
-	(31,275)	-
31,000	197,335	-
(18,184)	(370,284)	(520)
254,629	1,321,352	(520)
-	(438,985)	-
-	298,465	-
-	74,616	-
-	(65,904)	-
-	966,224	-
(406,235)	(406,235)	-
44,989	(17,226)	3,905
(361,246)	542,763	3,905
(221,328)	632,337	82,302
661,317	1,422,205	162,548
$ 439,989	$ 2,054,542	$ 244,850

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Cash Flows

Proprietary Funds
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2018	Airport
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	$ 178,886	$ (1,395,662)	$ (777,720)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	200,712	594,221
Change in operating assets and liabilities that provided (used) cash:			
Accounts receivable	(1,524)	17,762	(50,157)
Taxes receivable	83,230	-	-
Interest receivable	1,122	-	-
Due from other funds	20,000	-	-
Advances to other funds	45,000	-	-
Inventories	-	-	(8,540)
Other assets	-	-	13,205
Deferred pension outflows	-	222,243	-
Accounts payable	4,308	(5,844)	(10,372)
Due to other funds	-	-	-
Accrued liabilities	100	-	(532)
Unearned revenue	-	-	-
Deferred pension inflows	-	6,875	-
Net pension liability	-	(188,476)	-
Net cash provided by (used in) operating activities	$ 331,122	$ (1,142,390)	$ (239,895)

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
$ (173,854)	$ (2,168,350)	$ 16,521
12,301	807,234	-
5,281	(28,638)	(345)
-	83,230	-
-	1,122	-
-	20,000	-
-	45,000	-
-	(8,540)	-
3,241	16,446	51,260
-	222,243	-
37,653	25,745	11,724
-	-	-
93	(339)	(243)
574	574	-
-	6,875	-
-	(188,476)	-
$ (114,711)	$ (1,165,874)	$ 78,917

Concluded

OTSEGO COUNTY, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds
December 31, 2018

	Agency Funds
Assets	
Cash and cash equivalents	$ 1,936,022
Liabilities	
Undistributed tax collections	848,250
Bonds, restitutions, and payables to others	1,087,772
Total liabilities	$ 1,936,022

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

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Combining Statement of Net Position

Discretely Presented Component Units
December 31, 2018

	Road Commission	Ambulance Corporation	Commission on Aging 9/30/2018
Assets			
Cash and cash equivalents	$ 1,283,344	$ 11,483	$ 825,918
Investments	2,191,863	-	-
Receivables, net:			
Accounts	1,318,425	342,504	25,318
Taxes	2,339,661	977,213	-
Inventories	863,667	-	2,163
Capital assets not being depreciated	11,647,119	19,648	-
Capital assets being depreciated, net	24,403,746	1,572,526	-
Total assets	44,047,825	2,923,374	853,399
Deferred outflows of resources			
Pension and OPEB amounts	789,530	-	-
Liabilities			
Accounts payable	160,068	53,391	54,110
Accrued liabilities	114,586	5,284	-
Due to other governments	44,742	-	-
Advances from government units	455,897	-	-
Advances from primary government	-	338,024	-
Unearned revenue	-	-	-
Long-term debt:			
Due within one year	67,818	-	-
Due in more than one year	1,199,411	-	-
Net pension liability, due in more than one year	5,644,296	-	-
Net other postemployment benefits liability, due in more than one year	5,678,335	-	-
Total liabilities	13,365,153	396,699	54,110
Deferred inflows of resources			
Taxes levied for a subsequent period	1,251,916	977,213	-
Other state grants	1,087,745	-	-
Total deferred inflows	2,339,661	977,213	-
Net position			
Net investment in capital assets	35,035,854	1,592,174	-
Restricted	-	-	44,043
Unrestricted (deficit)	(5,903,313)	(42,712)	755,246
Total net position	$ 29,132,541	$ 1,549,462	$ 799,289

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

Sportsplex	Total
$ 54,929	$ 2,175,674
87,806	2,279,669
31,941	1,718,188
313,898	3,630,772
5,612	871,442
-	11,666,767
-	25,976,272
494,186	48,318,784
-	789,530
759	268,328
1,716	121,586
-	44,742
-	455,897
-	338,024
24,427	24,427
-	67,818
-	1,199,411
-	5,644,296
-	5,678,335
26,902	13,842,864
313,898	2,543,027
-	1,087,745
313,898	3,630,772
-	36,628,028
-	44,043
153,386	(5,037,393)
$ 153,386	$ 31,634,678

Combining Statement of Activities

Discretely Presented Component Units
For the Year Ended December 31, 2018

	Road Commission	Ambulance Corporation	Commission on Aging 9/30/2018
Expenses			
Road Commission	$ 8,896,471	$ -	$ -
Ambulance Corporation	-	2,682,331	-
Commission on Aging 9/30/2018	-	-	1,948,560
Sportsplex	-	-	-
Total expenses	8,896,471	2,682,331	1,948,560
Program revenues			
Charges for services	2,264,312	1,611,988	69,647
Operating grants and contributions	4,704,167	-	588,582
Capital grants and contributions	3,638,474	-	-
Total program revenues	10,606,953	1,611,988	658,229
Net revenue (expense)	1,710,482	(1,070,343)	(1,290,331)
General revenues			
Property taxes	1,229,639	959,210	1,262,757
Investment earnings	9,896	7,430	6,863
Gain on sale of capital assets	77,539	-	-
Other	1,056,096	6,703	91,410
Total general revenues	2,373,170	973,343	1,361,030
Change in net position	4,083,652	(97,000)	70,699
Net position, beginning of year, as restated	25,048,889	1,646,462	728,590
Net position, end of year	$ 29,132,541	$ 1,549,462	$ 799,289

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

Sportsplex	Total
$ -	$ 8,896,471
-	2,682,331
-	1,948,560
855,274	855,274
855,274	14,382,636
461,085	4,407,032
-	5,292,749
10,000	3,648,474
471,085	13,348,255
(384,189)	(1,034,381)
305,092	3,756,698
-	24,189
-	77,539
121,007	1,275,216
426,099	5,133,642
41,910	4,099,261
111,476	27,535,417
$ 153,386	$ 31,634,678

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County (the "County" or the "Government") was organized in 1840 and covers an area of approximately 527 square miles divided into nine Townships, one village, and one city. The County seat is located in the City of Gaylord. The County operates under an elected Board of Commissioners (nine members) with an appointed County 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 Unit

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 fund 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.

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 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 changes. 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.

Component Unit Financial Statements

Complete financial statements of the following individual component units can be obtained from the County Clerk's Office at 225 West Main Street, Gaylord, MI 49735. Separate reports are not issued.

Administrative Offices

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, MI 49735

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

Notes to Financial Statements

Complete financial statements of the following individual component units can be obtained from their respective administrative offices as listed below. Separate reports are issued.

Administrative Offices

Otsego County Road Commission Industrial Park, PO Box 537 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. Financial information of the Health Agency as of September 30, 2018 (the most recent financial statements) is as follows:

Assets	$ 7,990,487
Liabilities	3,864,491
Change in net position	(1,413,040)
Participant payments	
Total participant payments	1,029,088
Otsego County	216,579
Otsego County percent of total payments	21.05%

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.

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 2018 local match, recorded in the General fund, was $94,003.

Otsego County University Center (the "Facility") - Effective January 1, 2017, management of the Facility transferred to Kirtland Community College (the "College"). The terms of the agreement between the County and the College are effective January 1, 2017, through December 31, 2020, which will automatically be extended unless otherwise modified. The Governance Advisory Board (the "GAB") serves as citizen input on the operations of the Facility under the College's management. Membership of the GAB consists of 16 to 20 members, of which, 2 are members from the Otsego County Board of Commissioners or the County Administrator and the remaining members represent a broad variety of interests in Otsego County to include but not be limited to banking and financial services, medical, manufacturing, independent business owners and education. Further information regarding the Facility's operation is presented in a separately issued College report.

Component Unit and Enterprise Funds with Different Fiscal Year Ends

The financial information presented in this report is for the year ended December 31, 2018, except for the following component unit and enterprise fund:

Fund	Fund Presentation	Fiscal Year End
Commission on Aging	Component Unit	September 30, 2018
Bus System	Enterprise Fund	September 30, 2018

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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 *Library Capital Project Bond* fund accounts for activities related to the bond funded library expansion project.

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

The County reports the following major proprietary funds:

The *Delinquent Tax Revolving* fund accounts for the 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.

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 $420,000.

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.

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 its pension and OPEB plans.

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.

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. The County also reports deferred inflows related to its pension plan.

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 and for deficit fund balances.

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 $1,498,141 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.

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.

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.

Notes to Financial Statements

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 appropriated. 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, 2018, the County incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
Public safety:			
ORV	$ 7,426	$ 13,691	$ 6,265
Debt service:			
Principal payments	10,325	10,741	416
Interest and fiscal charges	-	848	848

4. DEFICIT FUND BALANCE

The Sportsplex Tennis Court Construction fund and the Trail Head Capital Project fund, nonmajor governmental funds, reported unassigned deficits of $69 and $17,187 at December 31, 2018, respectively.

5. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2018:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and cash equivalents	$ 11,237,058	$ 2,175,674	$ 13,412,732
Investments	11,052,577	2,279,669	13,332,246
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents	1,936,022	-	1,936,022
Total	$ 24,225,657	$ 4,455,343	$ 28,681,000

Deposits and investments	
Bank deposits:	
Checking and savings accounts	$ 15,329,855
Pooled certificates of deposit:	
Due in one to five years	1,408,294
U.S. agencies	11,423,951
Other - Road Commission investments	500,000
Cash on hand	18,900
Total	$ 28,681,000

Notes to Financial Statements

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, $14,776,015 of the County's bank balance of $16,463,038 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.

Investments	Credit Rating	Fair Value
U.S. government agencies	AA+	$ 11,423,951
Other - Road Commission investments	Not rated	500,000
Total		$ 11,923,951

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.

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	$ 11,423,951

Notes to Financial Statements

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 Fair Value
Fixed income:				
Debt securities:				
U.S. government bonds	$ -	$ 11,423,951	$ -	$ 11,423,951
Other - Road Commission investments	-	500,000	-	500,000
Total investments at fair value	$ -	$ 11,923,951	$ -	11,923,951
Total				$ 11,923,951

The following is a description of the valuation methodology used for assets recorded at fair value:

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.

There have been no changes from the prior year in the methodologies used.

6. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	$ 409,497	$ 80,917	$ 2,138,188
Less: Allowance for uncollectible accounts	-	-	(420,000)
Property taxes	4,087,886	1,025,049	3,630,772
Due from other governments	416,383	75,868	-
Loans	1,525,999	-	-
Interest	-	143,330	-
Totals	$ 6,439,765	$ 1,325,164	$ 5,348,960

Loans Receivable - Housing Commission Special Revenue Fund

The amounts included 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, 2018, the total amount of outstanding loans was $1,525,999. The County estimates that all payments due in 2019, totaling approximately $49,000, will be paid. However, as of this report's issuance date of July 1, 2019, $104,600 of receivable loans were forgiven.

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).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Governmental Activities	Business-type Activities	Component Units
Accounts payable	$ 659,897	$ 134,243	$ 268,328
Accrued liabilities	86,083	1,846	121,586
Due to other governments	9,428	223,518	44,742
Accrued interest on long-term debt	6,825	-	-
Totals	$ 762,233	$ 359,607	$ 434,656

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2018, was as follows:

Due to and from - primary government

	Due from Other Funds	Due to Other Funds
General fund	$ 124,209	$ 9,622
Housing Commission fund	-	60,000
Delinquent Tax Revolving fund	60,000	-
Nonmajor governmental funds		114,587
	$ 184,209	$ 184,209

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.

Interfund advances - primary government

	Advance to Other Funds	Advance From Other Funds
Nonmajor governmental funds	$ 20,844	$ -
Airport fund	-	20,844
	$ 20,844	$ 20,844

Advances to and from - primary government and component unit

	Advance to Component Unit	Advance From Primary government
Nonmajor governmental funds	$ 143,024	$ -
Delinquent Tax Revolving fund	195,000	-
Ambulance fund	-	338,024
	$ 338,024	$ 338,024

The advances above were provided for/used to fund equipment purchases.

For the year ended December 31, 2018, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	$ 93,284	$ 638,639
Housing Commission fund	256	-
Library Capital Projects fund	1,393,163	-
Debt Service fund	635,363	-
Nonmajor governmental funds	681,382	1,975,180
Delinquent Tax Revolving fund	-	352,100
Bus System fund	16,160	-
Airport fund	150,175	-
Nonmajor enterprise funds	31,000	18,184
Internal service funds	-	520
Timing difference	-	16,160
	$ 3,000,783	$ 3,000,783

The timing difference above in the amount of $16,160, is a result of the Bus System enterprise fund having a fiscal year-end that is different from the County's year-end.

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.

9. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	$ 2,282,072	$ 154,355	$ -	$ -	$ 2,436,427
Construction in progress	522,956	2,451,385	-	(203,117)	2,771,224
Total capital assets not being depreciated, net	2,805,028	2,605,740	-	(203,117)	5,207,651
Capital assets, being depreciated:					
Buildings	16,706,964	284,557	-	203,117	17,194,638
Leasehold improvements	24,854	-	-	-	24,854
Furniture and fixtures	889,237	6,215	-	-	895,452
Equipment:					
Data handling	1,946,523	80,158	-	-	2,026,681
Other equipment	2,624,430	13,073	-	-	2,637,503
Vehicles	1,643,719	44,116	-	-	1,687,835
Infrastructure	37,130	-	-	-	37,130
	23,872,857	428,119	-	203,117	24,504,093
Less accumulated depreciation for:					
Buildings	(11,006,542)	(595,638)	-	-	(11,602,180)
Leasehold improvements	(24,854)	-	-	-	(24,854)
Furniture and fixtures	(759,602)	(48,769)	-	-	(808,371)
Equipment:					
Data handling	(1,712,141)	(71,532)	-	-	(1,783,673)
Other equipment	(1,106,370)	(116,113)	-	-	(1,222,483)
Vehicles	(1,406,474)	(102,505)	-	-	(1,508,979)
Infrastructure	(16,969)	(1,997)	-	-	(18,966)
	(16,032,952)	(936,554)	-	-	(16,969,506)
Total capital assets being depreciated, net	7,839,905	(508,435)	-	203,117	7,534,587
Governmental activities capital assets, net	$ 10,644,933	$ 2,097,305	$ -	$ -	$ 12,742,238

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	$ 99,998	$ -	$ -	$ -	$ 99,998
Capital assets, being depreciated:					
Buildings	2,641,858	-	-		2,641,858
Furniture and fixtures	6,000	-	-	-	6,000
Vehicles	1,691,045	396,425	-	-	2,087,470
Equipment	332,917	42,560	-	-	375,477
Infrastructure	12,779,602	-	-	-	12,779,602
	17,451,422	438,985	-	-	17,890,407
Less accumulated depreciation for:					
Buildings	(1,319,002)	(105,508)			(1,424,510)
Furniture and fixtures	(6,000)	-			(6,000)
Vehicles	(1,588,238)	(161,687)			(1,749,925)
Equipment	(240,588)	(23,234)			(263,822)
Infrastructure	(7,455,884)	(516,805)			(7,972,689)
	(10,609,712)	(807,234)	-	-	(11,416,946)
Total capital assets being depreciated, net	6,841,710	(368,249)	-	-	6,473,461
Business-type activities capital assets, net	$ 6,941,708	$ (368,249)	$ -	$ -	$ 6,573,459

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

Depreciation of governmental activities by function	
General government	$ 392,020
Public safety	175,805
Recreation and culture	368,729
Total depreciation expense - governmental activities	$ 936,554
Depreciation of business-type activities by function	
Bus System 9/30/2018	$ 200,712
Airport	594,221
University Center Metropolitan Area Network	12,301
Total depreciation expense - business-type activities	$ 807,234

Discretely presented component units

Capital assets activity for the discretely presented component units for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Disposals/ Adjustments	Ending Balance
Component Unit - Road Commission				
Capital assets, not being depreciated:				
Land and improvements	$ 10,889,984	$ 757,135	$ -	$ 11,647,119
Capital assets, being depreciated:				
Buildings	3,936,130	-	-	3,936,130
Road equipment	7,093,391	877,895	(314,606)	7,656,680
Shop equipment	108,683	-	(2,004)	106,679
Office equipment	50,262	-	(8,215)	42,047
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	32,341,559	2,881,339	(1,273,773)	33,949,125
	44,707,245	3,759,234	(1,598,598)	46,867,881
Less accumulated depreciation for:				
Buildings	(1,891,067)	(87,241)	-	(1,978,308)
Road equipment	(5,781,546)	(556,341)	314,495	(6,023,392)
Shop equipment	(102,618)	(3,047)	2,004	(103,661)
Office equipment	(46,351)	(2,125)	8,215	(40,261)
Engineer's equipment	(13,562)	-	-	(13,562)
Yard and storage equipment	(1,800)	-	-	(1,800)
Traffic signals	(45,396)	(320)	-	(45,716)
Infrastructure - bridges	(305,109)	(28,840)	-	(333,949)
Infrastructure - roads	(13,561,268)	(1,635,991)	1,273,773	(13,923,486)
	(21,748,717)	(2,313,905)	1,598,487	(22,464,135)
Total capital assets being depreciated, net	22,958,528	1,445,329	(111)	24,403,746
Road Commission capital assets, net	$ 33,848,512	$ 2,202,464	$ (111)	$ 36,050,865

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	$ 5,000	$ 19,648	$ -	$ (5,000)	$ 19,648
Capital assets being depreciated:					
Buildings	1,600,544	-	-	-	1,600,544
Other equipment	665,745	26,700	-	-	692,445
Vehicles	2,226,411	39,489	-	5,000	2,270,900
	4,492,700	66,189	-	5,000	4,563,889
Less accumulated depreciation for:					
Buildings	(679,044)	(64,022)	-	-	(743,066)
Other equipment	(580,956)	(28,096)	-	-	(609,052)
Vehicles	(1,491,674)	(147,571)	-	-	(1,639,245)
	(2,751,674)	(239,689)	-	-	(2,991,363)
Total capital assets being depreciated, net	1,741,026	(173,500)	-	-	1,572,526
Otsego County Ambulance Corp capital assets, net	$ 1,746,026	$ (153,852)	$ -	$ (5,000)	$ 1,592,174

	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	$ -	$ -	$ -	$ -	$ -

10. LONG-TERM DEBT

Changes in Long-term Debt. Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Otsego County Building Authority Series 2017 Bonds, maturing serially through 2022 in annual amounts ranging from $360,000 to $395,000 and at interest rates ranging from 1.75% to 2.0%.	$ 1,890,000	$ -	$ 360,000	$ 1,530,000	$ 370,000
Otsego County Building Authority Series 2010 Bonds, maturing serially through 2020 in annual amounts ranging from $20,000 to $240,000 and at interest rates ranging from 2.0% to 4.0%.	680,000	-	220,000	460,000	220,000
Otsego County Building Authority Series 2011 Bonds, issued on behalf of Otsego County Road Commission, maturing serially through 2033 in annual amounts ranging from $35,000 to $65,000 and at interest rates ranging from 3.25% to 5.0%.	690,000	-	35,000	655,000	40,000
Otsego County Brownfield Redevelopment Authority loan, maturing through 2024 with payments ranging from $16,031 to $17,529 and interest at 1.5%.	117,397	-	16,031	101,366	16,272

	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.	$ 20,938	$ -	$ 10,741	$ 10,197	$ 10,198
Total bonds payable and installments payable	3,398,335	-	641,772	2,756,563	656,470
Premium on bond issuance	17,548	-	3,510	14,038	3,510
Accrued compensated absences	170,542	219,880	194,715	195,707	8,354
Total governmental activities	$ 3,586,425	$ 219,880	$ 839,997	$ 2,966,308	$ 668,334

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

Year Ended	Bonds Payable		Installments Payable	
December 31,	Principal	Interest	Principal	Interest
2019	$ 646,272	$ 69,910	$ 10,198	$ 273
2020	676,516	52,591	-	-
2021	441,763	39,444	-	-
2022	457,015	29,732	-	-
2023	62,270	23,059	-	-
2024-2028	272,529	79,775	-	-
2029-2031	190,000	14,500	-	-
	$ 2,746,365	$ 309,011	$ 10,198	$ 273

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type activities					
Accrued compensated absences	$ 29,413	$ 15,649	$ 19,517	$ 25,545	$ -

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Discretely Presented Component Units					
Road Commission					
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%.	$ 690,000	$ -	$ 35,000	$ 655,000	$ 40,000
Installment payable secured by equipment, payable in annual installments of $84,277 including interest of 1.59%, due 2018.	82,908	-	82,908	-	-
Installment payable secured by equipment, payable in monthly installments of $1,748 including interest of 2.19%, due 2020.	201,456	-	16,770	184,686	17,110
Installment payable secured by equipment, payable in monthly installments of $14,430 including interest of 2.14%, due 2020.	489,177	-	489,177	-	-
Installment payable secured by equipment, payable in annual installments of $80,455 including interest of 1.59%, due 2018.	62,592	-	62,592	-	-
Installment payable secured by equipment, payable in monthly installments of $113 including interest of 2.69%, due 2020.	92,390	1,276	-	93,666	-

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment payable secured by equipment, payable in annual installments of $116,358 including interest of 1.69%, due 2019.	$ 226,947	$ -	$ 226,947	$ -	$ -
Installment payable secured by equipment, payable in annual installments of $72,097 including interest of 1.69%, due 2019.	140,619	-	140,619	-	-
Installment payable secured by equipment, payable in annual installments of $14,122 including interest of 4.18%, due 20223.	-	160,780	79,121	81,659	10,708
Total lease payable and installment debt	1,986,089	162,056	1,133,134	1,015,011	67,818
Accrued compensated absences (1)	299,759	-	47,541	252,218	-
Total road commission component unit	$ 2,285,848	$ 162,056	$ 1,180,675	$ 1,267,229	$ 67,818

(1) Net decrease

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

Year Ended	Lease Payable		Installments Payable	
December 31,	Principal	Interest	Principal	Interest
2019	$ 40,000	$ 29,175	$ 27,818	$ 7,279
2020	40,000	27,775	272,398	4,160
2021	40,000	26,325	11,622	2,499
2022	45,000	24,562	12,108	2,014
2023	45,000	22,538	36,065	1,507
2024-2028	255,000	79,512	-	-
2029-2031	190,000	14,500	-	-
	$ 655,000	$ 224,387	$ 360,011	$ 17,459

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 $25,545 at December 31, 2018.

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.

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, 2018, the balance of the County's member retention was $370,100.

Changes in the balances of claims liabilities are as follows:

	Fiscal Year Ended December	
	2018	2017
Estimated liability, beginning of year	$ 12,160	$ 17,430
Receipts	60,652	49,945
Estimated claims incurred	(44,888)	(37,850)
Claim payments	(10,736)	(17,365)
Estimated liability, end of year	$ 17,188	$ 12,160

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 $100,000
Employee Benefits	Commercial Insurance Provider

Workers' Compensation

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

At December 31, 2018 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.

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, 2018, 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, 2018, 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 2017 ad valorem tax for the General fund is levied and collectible on December 1, 2017 and the 2018 ad valorem tax is levied and collectible on July 1, 2018 for the special revenue funds, it is the County of Otsego's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax revolving funds within one year.

The December 1, 2017 taxable valuation of the County of Otsego totaled $1,231,607,518, on which ad valorem taxes were levied as follows:

Source	Millage Rate
Animal Control	0.3000
Commission on Aging	1.0000
Ambulance	0.7800
Bus System	0.2500
Parks and Recreation	0.2500
Road Projects	1.0000
Library	0.4000
Library Building	0.3750
Recycling	0.3500
Sportsplex	0.2500
Sportsplex Building	0.1875
M-TEC	0.6464
University Center	0.5569

The July 1, 2018 taxable valuation of the County of Otsego totaled $1,258,713,819, 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:

Taxing Unit	Amount of Tax Abatement for the Year Ended December 31, 2018
City of Gaylord	$ 11,345
Bagley Township	6,292
Corwith Township	1,670
Livingston Township	1,988

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, 2018, Otsego County property taxes were reduced by $2,578 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, 2018, Otsego County property taxes were reduced by $606 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.

17. BENEFIT PLANS

Primary Government

Defined Benefit Pension Plan

Plan Description. The County's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The County 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.

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, 2017.

Notes to Financial Statements

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, 2018, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	106
Inactive employees entitled to but not yet receiving benefits	46
Active employees	106
Total membership	258

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	$ 7,196	0%
Library Non Union	Defined Benefit	Open	12.16%	0%
General Local 214 Bus	Defined Benefit	Closed	$ 5,957	0%
Police Officers Association of Michigan	Defined Benefit	Closed	$ 2,851	0%
Elected Appointed Supervisors	Defined Benefit	Closed	$ 21,263	0%
46th Trial Court	Defined Benefit	Closed	$ 9,626	0%
General Local 214 Clerical	Defined Benefit	Closed	$ 5,045	0%
87-A Judge/Friend of Court pre 9/1/14	Defined Benefit	Closed	$ 2,000	0%
Sheriff Union	Defined Benefit	Closed	$ 7,807	0%
Sheriff Union new hires after 6/1/10	Defined Benefit	Closed	$ 1,414	4%
Library Director	Defined Benefit	Open	8.16%	0%
Elected Appointed Supervisors after 1/1/09	Hybrid	Open	7.10%	0%
General Non Union after 1/1/09	Hybrid	Open	7.46%	0%
Police Officers Association of Michigan hired after 1/1/11	Hybrid	Open	5.23%	0%
46th Trial Court hired after 6/1/11	Hybrid	Open	5.79%	0%
Clerical Local #214 after 1/1/12	Hybrid	Open	0.00%	0%
Teamsters Bus hired after 1/1/11	Hybrid	Open	7.24%	0%
All Full Time Police on/after 1/1/16	Hybrid	Open	6.03%	0%

Net Pension Liability. The County's net pension liability was measured as of December 31, 2017, 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, 2017 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 expense including inflation

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.50%.

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

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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%
	100.00%		
Inflation			3.25%
Administrative expenses netted above			0.25%
Investment rate of return			8.00%

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2017 was 8.0% (same as 2016). 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.

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, 2016	$ 21,963,521	$ 13,589,341	$ 8,374,180
Changes for the year:			
Service cost	336,412	-	336,412
Interest	1,719,681	-	1,719,681
Changes in benefits	(91,145)	-	(91,145)
Differences between expected and actual experience	(48,394)	-	(48,394)
Employer contributions	-	1,096,794	(1,096,794)
Employee contributions	-	30,679	(30,679)
Net investment income	-	1,806,557	(1,806,557)
Benefit payments, including refunds of employee contributions	(1,271,380)	(1,271,380)	-
Administrative expense	-	(28,580)	28,580
Other changes	(54)	(57)	3
Net changes	645,120	1,634,013	(988,893)
Balances at December 31, 2017	$ 22,608,641	$ 15,223,354	$ 7,385,287

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 8.0%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
County's net pension liability	$ 9,894,451	$ 7,385,287	$ 5,253,389

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the County recognized pension expense of $1,312,316. The County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 289,704	$ (289,704)
Difference between expected and actual experience	181,051	347,856	(166,805)
Changes in assumptions	259,220	-	259,220
	440,271	637,560	(197,289)
Contributions subsequent to the measurement	1,109,536	-	1,109,536
Total	$ 1,549,807	$ 637,560	$ 912,247

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, 2018. Other amounts reported as deferred outflows and inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended December 31,	Amount
2019	$ 349,719
2020	(137,476)
2021	(264,270)
2022	(145,262)
Total	$ (197,289)

Payable to the Pension Plan. At December 31, 2018, the County reported a payable of $74,526 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018.

For governmental activities, the net pension liability is generally liquidated by the General fund. For business-type activities, the net pension liability is liquidated by the Bus System fund.

Road Commission - Component Unit

Description of Plan and Plan Assets. The Road Commission participates 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, 2017.

Further information regarding the Road Commission's participation in the Plan is presented in a separately issued Road Commission report.

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

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.

Management of the OPEB Plan is vested with the County Board of Commissioners.

Plan Membership. At December 31, 2017, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	19
Active plan members	10
Total membership	29

Benefits Provided. The County Board of Commissioners has the authority to establish or amend benefit terms, to determine the types of benefits provided through the OPEB Plan, and to determine the classes of plan members covered. The OPEB Plan provides medical insurance and prescription drug coverage to qualified retirees and their beneficiaries.

Contributions. The Plan was established and is being funded under the authority of the Employer's governing body and under agreements with the unions representing various classes of employees. The Plan's funding policy is to pay expected plan benefits from general operating funds – pay-as-you-go. Active participants do not make contributions to pre-fund the Plan. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves.

Discount Rate. The discount rate used to measure the total OPEB liability was 3.16%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. The Plan is not funded through a trust, therefore, projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017 using the following actuarial assumptions (which were determined by management utilizing the best information available), applied to all periods included in the measurement, unless otherwise specified:

Salary increases including inflation	2.00%
Investment rate of return	N/A; this is not prefunded
20-year Aa Municipal bond rate	3.16%
Mortality	As set forth in IRS Regulations for 2018 (1.430(h)(3)) for Non-annuitants, separately for males and females as well as annuitants and non-annuitants. Based on RP-2000Tables with Scale AA.

Utilization	70% of eligible employees are assumed to elect coverage at retirement; Actual coverage used for non-active.
Healthcare inflation	Pre-65 - 8% in 2019 graded down 0.5% per year to 5.0% over 6 years. Medicare eligible – 5.0% per year.

Changes in Total OPEB Liability of the County

	Total OPEB Liability
Balances at December 31, 2016	$ 1,848,952
Changes for the year:	
Service cost	46,710
Interest	58,758
Changes in assumptions	48,727
Benefit payments, including refunds of employee contributions	(72,446)
Net changes	81,749
Balances at December 31, 2017	$ 1,930,701

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the County, calculated using the discount rate of 3.16%, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.16%) or 1% higher (4.16%) than the current rate:

1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
$ 2,186,800	$ 1,930,701	$ 1,718,630

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the County, calculated using the healthcare cost trend rate of 8% grading down to 5% after 6 years, as well as what the County's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower (7%) or 1% higher (9%) than the current rate:

1% Decrease (7%)	Current Healthcare Trend Rate (8%)	1% Increase (9%)
$ 1,697,566	$ 1,930,701	$ 2,215,515

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of $162,740. The County reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	$ 26,857	$ -	$ 26,857
Contributions subsequent to the measurement date	70,961	-	70,961
Total	$ 97,818	$ -	$ 97,818

Amounts reported as deferred outflows/inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

Year Ended December 31, 2018	Amount
2019	$ 21,870
2020	4,987
Total	$ 26,857

Payable to the OPEB Plan. At December 31, 2018 the County had no amounts payable for contributions to the OPEB plan.

For governmental activities, the net OPEB liability is generally liquidated by the General fund.

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.

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.

Further information regarding the Plan is presented in a separately issued Road Commission report.

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 Fund	M-TEC Fund	Library Capital Project Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable for:						
Inventories	$ 20,107	$ -	$ -	$ -	$ 7,560	$ 27,667
Other assets	12,072	-	-	-	-	12,072
Total nonspendable	32,179	-	-	-	7,560	39,739
Restricted for:						
Housing projects	-	113,002	-	-	-	113,002
Public safety	-	-	-	-	1,919,978	1,919,978
Health and welfare	-	-	-	-	125,050	125,050
Recreation and culture	-	-	-	-	3,652,571	3,652,571
University center	-	-	-	-	147,544	147,544
Debt service	-	-	-	554,006	225,433	779,439
Recycling	-	-	-	-	100,654	100,654
Register of deeds	-	-	-	-	84,891	84,891
Law library	-	-	-	-	19,371	19,371
Bradford Lake Dam	-	-	-	-	20,120	20,120
Total restricted	-	113,002	-	554,006	6,295,612	6,962,620
Committed for:						
Pension contributions	150,000	-	-	-	-	150,000
Work camp	-	-	-	-	1,975	1,975
Friend of the court	-	-	-	-	338,269	338,269
Child care probate	-	-	-	-	21,001	21,001
Equipment	-	-	-	-	155,791	155,791
Public improvements	-	-	-	-	1,731,625	1,731,625
Total committed	150,000	-	-	-	2,248,661	2,398,661
Unassigned (deficit)	5,069,094	-	-	-	(17,256)	5,051,838
Total fund balances, governmental funds	$ 5,251,273	$ 113,002	$ -	$ 554,006	$ 8,534,577	$ 14,452,858

21. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION

The composition of net investment in capital assets as of December 31, 2018, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	$ 5,207,651	$ 99,998	$ 11,666,767
Capital assets being depreciated, net	7,534,587	6,473,461	25,976,272
	12,742,238	6,573,459	37,643,039
Less related debt:			
Total installment debt	2,756,563	-	1,015,011
Less: noncapital related debt	(655,000)	-	-
Less: unexpended bond proceeds	(554,006)	-	-
	1,547,557	-	1,015,011
Net investment in capital assets	$ 11,194,681	$ 6,573,459	$ 36,628,028

The composition of restricted net position as of December 31, 2018, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Net position restricted for:			
General government	$ 22,906	$ -	$ -
Health and welfare	125,050	-	-
University center	147,544	-	-
Debt service	1,427,614	-	-
Recycling	100,654	-	-
Register of deeds	84,891	-	-
Law library	19,371	-	-
Bradford Lake Dam	20,120	-	-
Commission on Aging	-	-	44,043
Total restricted net position	$ 1,948,150	$ -	$ 44,043

22. SUBSEQUENT EVENTS / COMMITMENTS

Library Expansion Project

The voters of Otsego County passed a 0.375 millage in November, 2016 for 6 years, to repay bonds which were 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)	2,250,000
Total estimated cost of the expansion project	$ 3,000,000

The expansion is anticipated to be completed in the summer 2019. Cost incurred through December 31, 2018 are approximately $2,771,000. The estimated costs to complete the project are $229,000.

Gaylord Gateway Trailhead

Due to a planned 12 mile extension of the North Central State Trail, a downtown Gaylord trailhead is needed to provide better access by trail users to downtown businesses and facilities, as well as providing a relief station. The facility would include typical benches, picnic tables, and a pavilion with restrooms.

Iron Belle Trail Grant for engineering	$	80,000
Michigan Natural Resources Trust Fund Grant		300,000
Michigan Department of Natural Resources Recreational Trails Program		320,000
Other		220,000
Total estimated cost of the Trailhead Project	$	920,000

The trailhead project is estimated to be completed in the summer of 2019. Cost incurred through December 31, 2018 are approximately $63,000. The estimated costs to complete the project are $857,000.

Groen Preserve Projects

The County is a recipient of funding through the Groen Foundation (the Foundation). The County and the Foundation agreed to reconstruct the entrance to the Groen Preserve and renovate an existing structure to use as a Ranger Station in the Preserve.

Entrance project	$	375,000
Ranger station project		65,000
Total estimated cost of the Groen Preserve Projects	$	440,000

The Groen preserve project is estimated to be completed in 2019. Cost incurred through December 31, 2018 are approximately $15,000. The estimated costs to complete the project are $425,000.

Road Commission

During April 2019, the Board executed a property settlement in the amount of $80,000.

After fiscal year end, the Road Commission executed equipment purchases amounting to approximately $288,000.

23. RESTATEMENTS

The City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits,* in the current year. As a result of this change, beginning net position of governmental activities was decreased by $362,000. The Road Commission, a discretely presented component unit, beginning net position was increased by $2,498,727.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Year Ended December 31			
	2018	2017	2016	2015
Total pension liability				
Service cost	$ 336,412	$ 349,718	$ 348,000	$ 338,932
Interest	1,719,681	1,696,843	1,543,901	1,479,439
Changes in benefits	(91,145)	(10,695)	-	-
Differences between expected and actual experience	(48,394)	(503,144)	724,207	-
Changes in assumptions	-	-	1,036,885	-
Benefit payments, including refunds of employee contributions	(1,271,380)	(1,209,751)	(1,104,777)	(978,368)
Other changes	(54)	-	-	-
Net change in total pension liability	645,120	322,971	2,548,216	840,003
Total pension liability, beginning of year	21,963,521	21,640,550	19,092,334	18,252,331
Total pension liability, end of year	22,608,641	21,963,521	21,640,550	19,092,334
Plan fiduciary net position				
Employer contributions	1,096,794	865,641	693,476	640,433
Employee contributions	30,679	7,937	5,905	3,630
Net investment (loss) income	1,806,557	1,422,497	(195,083)	800,044
Benefit payments, including refunds of employee contributions	(1,271,380)	(1,209,751)	(1,104,777)	(978,368)
Administrative expense	(28,580)	(28,053)	(28,591)	(29,357)
Other changes	(57)	-	-	-
Net change in plan fiduciary net position	1,634,013	1,058,271	(629,070)	436,382
Plan fiduciary net position, beginning of year	13,589,341	12,531,070	13,160,140	12,723,758
Plan fiduciary net position, end of year	15,223,354	13,589,341	12,531,070	13,160,140
County's net pension liability	$ 7,385,287	$ 8,374,180	$ 9,109,480	$ 5,932,194
Plan fiduciary net position as a percentage of total pension liability	67.3%	61.9%	57.9%	68.9%
Covered payroll	$ 4,575,021	$ 4,547,735	$ 4,390,047	$ 4,188,926
County's net pension liability as a percentage of covered payroll	161.4%	184.1%	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.

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 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%
2017	21,963,521	13,589,341	8,374,180	61.9%	4,547,735	184.14%
2018	22,608,641	15,223,354	7,385,287	67.3%	4,575,021	161.43%

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.

Changes in assumptions. In 2016, amounts reported as changes in assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return and changes in asset smoothing.

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 Payroll (1)	Contributions as Percentage of Covered Payroll
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	865,641	(150,000)	4,547,735	19.03%
2017	856,396	1,106,396	(250,000)	4,575,021	24.18%
2018	934,199	1,184,199	(250,000)	4,401,566	26.90%

(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	24 years
Asset valuation method	Open; 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	2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The mortality tables were first used for the December 31, 2015 actuarial valuations.

Required Supplementary Information

Single-Employer Other Postemployment Benefits Plan

Schedule of Changes in the County's Total OPEB Liability and Related Ratios

	Year Ended December 31, 2018
Total OPEB liability	
Service cost	$ 46,710
Interest	58,758
Changes in assumptions	48,727
Benefit payments, including refunds of employee contributions	(72,446)
Net change in total OPEB liability	81,749
Total OPEB liability, beginning of year	1,848,952
Total OPEB liability, end of year	$ 1,930,701
Covered-employee payroll	$ 4,401,566
County's total OPEB liability as a percentage of covered-employee payroll	43.9%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Required Supplementary Information

Single-Employer Other Postemployment Benefits 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 Payroll (1)	Contributions as Percentage of Covered Payroll
2018	$ 155,520	$ 70,961	$ 84,559	$ 4,401,566	1.61%

(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.

Changes in assumptions. In 2018, amounts reported as changes in assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, healthcare inflation updates, and lowered utilization percentages.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds
December 31, 2018

	Special Revenue	Capital Projects	Total
Assets			
Cash and cash equivalents	$ 2,450,501	$ 3,271,962	$ 5,722,463
Investments	1,860,901	850,021	2,710,922
Receivables:			
Accounts	198,370	105,513	303,883
Property taxes	2,328,861	707,567	3,036,428
Due from other governments	214,734	85,466	300,200
Advances to other funds		20,844	20,844
Advances to component units	-	143,024	143,024
Other assets	7,560	-	7,560
Total assets	$ 7,060,927	$ 5,184,397	$ 12,245,324
Liabilities			
Accounts payable	$ 279,323	$ 41,649	$ 320,972
Accrued liabilities	18,938	-	18,938
Due to other funds	4,545	110,042	114,587
Due to other governments	9,428	-	9,428
Unearned revenue	210,394	138	210,532
Total liabilities	522,628	151,829	674,457
Deferred inflows of resources			
Taxes levied for a subsequent period	2,328,861	707,429	3,036,290
Fund balances			
Nonspendable	7,560	-	7,560
Restricted	3,684,842	2,610,770	6,295,612
Committed	517,036	1,731,625	2,248,661
Unassigned (deficit)	-	(17,256)	(17,256)
Total fund balances	4,209,438	4,325,139	8,534,577
Total liabilities, deferred inflows of resources, and fund balances	$ 7,060,927	$ 5,184,397	$ 12,245,324

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended December 31, 2018

	Special Revenue	Capital Projects	Total
Revenues			
Taxes	$ 2,425,242	$ 694,898	$ 3,120,140
Federal sources	320,742	-	320,742
State sources	404,544	175,700	580,244
Local sources	-	41,200	41,200
Charges for services	1,037,836	39,228	1,077,064
Fines and forfeits	169,520	-	169,520
Interest and rentals	54,663	74,517	129,180
Other	997,911	292,307	1,290,218
Total revenues	5,410,458	1,317,850	6,728,308
Expenditures			
Current:			
Judicial	448,956	-	448,956
General government	1,059,961	-	1,059,961
Public safety	1,815,777	-	1,815,777
Public works	-	-	-
Health and welfare	840,911	-	840,911
Recreation and culture	1,475,664	-	1,475,664
Debt service:			
Principal	16,031	-	16,031
Interest and fiscal charges	1,762	-	1,762
Capital outlay:			
Public safety	-	167,639	167,639
Recreation and culture	-	147,549	147,549
Other	-	95,166	95,166
Contribution to other governmental units	-	220,663	220,663
Total expenditures	5,659,062	631,017	6,290,079
Revenues (under) over expenditures	(248,604)	686,833	438,229
Other financing sources (uses)			
Transfers in	561,382	120,000	681,382
Transfers out	(286,992)	(1,688,188)	(1,975,180)
Total other financing sources (uses)	274,390	(1,568,188)	(1,293,798)
Net change in fund balances	25,786	(881,355)	(855,569)
Fund balances, beginning of year	4,183,652	5,206,494	9,390,146
Fund balances, end of year	$ 4,209,438	$ 4,325,139	$ 8,534,577

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Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2018

	Work Camp	Parks and Recreation	Groen Nature Preserve	University Center
Assets				
Cash and cash equivalents	$ 25	$ 3,744	$ 165,284	$ 272,544
Investments	-	303,200	-	-
Receivables:				
Accounts	-	11,620	-	-
Property taxes	-	313,585	-	698,889
Due from other governments	7,645	-	-	-
Other assets	-	-	-	-
Total assets	$ 7,670	$ 632,149	$ 165,284	$ 971,433
Liabilities				
Accounts payable	$ 434	$ 4,428	$ 1,709	$ 125,000
Accrued liabilities	716	3,141	259	-
Due to other governments	-	-	-	-
Due to other funds	4,545	-	-	-
Unearned revenue	-	70,304	140,090	-
Total liabilities	5,695	77,873	142,058	125,000
Deferred inflows of resources				
Taxes levied for a subsequent period	-	313,585	-	698,889
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	240,691	23,226	147,544
Committed	1,975	-	-	-
Total fund balances	1,975	240,691	23,226	147,544
Total liabilities, deferred inflows of resources, and fund balances	$ 7,670	$ 632,149	$ 165,284	$ 971,433

Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling	Gypsy Moth Control
$ 218,758	$ 65,036	$ 8,188	$ 19,903	$ 114,584
-	345,997	-	120,000	-
-	-	-	153	-
-	376,469	-	438,014	-
133,658	797	-	-	-
5,856	-	-	-	-
$ 358,272	$ 788,299	$ 8,188	$ 578,070	$ 114,584
$ 8,167	$ 10,571	$ -	$ 39,402	$ -
5,980	3,379	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
14,147	13,950	-	39,402	-
-	376,469	-	438,014	-
5,856	-	-	-	-
-	397,880	8,188	100,654	114,584
338,269	-	-	-	-
344,125	397,880	8,188	100,654	114,584
$ 358,272	$ 788,299	$ 8,188	$ 578,070	$ 114,584

Continued...

Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2018

	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation	Library
Assets				
Cash and cash equivalents	$ 225,433	$ 483,644	$ 86,820	$ 199,176
Investments	-	493,862	-	592,842
Receivables:				
Accounts	-	319	55	3,188
Property taxes	-	-	-	501,904
Due from other governments	-	-	-	-
Other assets	-	-	-	-
Total assets	$ 225,433	$ 977,825	$ 86,875	$ 1,297,110
Liabilities				
Accounts payable	$ -	$ 11,310	$ 1,984	$ 17,322
Accrued liabilities	-	3,186	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	-	14,496	1,984	17,322
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	-	501,904
Fund balances				
Nonspendable	-	-	-	-
Restricted	225,433	963,329	84,891	777,884
Committed	-	-	-	-
Total fund balances	225,433	963,329	84,891	777,884
Total liabilities, deferred inflows of resources, and fund balances	$ 225,433	$ 977,825	$ 86,875	$ 1,297,110

Emergency 911 Funds	Concealed Pistol Licensing	Local Officers Training	Law Library	Department of Human Services
$ 329,815	$ 34,414	$ 28,802	$ 20,157	$ 5,751
-	-	-	-	5,000
120,916	124	-	-	-
-	-	-	-	-
44,164	-	-	-	-
-	-	-	-	-
$ 494,895	$ 34,538	$ 28,802	$ 20,157	$ 10,751
$ 7,654	$ -	$ -	$ 786	$ 285
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
7,654	-	-	786	285
-	-	-	-	-
-	-	-	-	-
487,241	34,538	28,802	19,371	10,466
-	-	-	-	-
487,241	34,538	28,802	19,371	10,466
$ 494,895	$ 34,538	$ 28,802	$ 20,157	$ 10,751

Continued...

Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2018

	Child Care Probate	Equipment Revolving	Bradford Lake Dam	Total
Assets				
Cash and cash equivalents	$ 52,324	$ 95,979	$ 20,120	$ 2,450,501
Investments	-	-	-	1,860,901
Receivables:				
Accounts	121	61,874	-	198,370
Property taxes	-	-	-	2,328,861
Due from other governments	28,470	-	-	214,734
Other assets	1,704	-	-	7,560
Total assets	$ 82,619	$ 157,853	$ 20,120	$ 7,060,927
Liabilities				
Accounts payable	$ 48,209	$ 2,062	$ -	$ 279,323
Accrued liabilities	2,277	-	-	18,938
Due to other governments	9,428	-	-	9,428
Due to other funds	-	-	-	4,545
Unearned revenue	-	-	-	210,394
Total liabilities	59,914	2,062	-	522,628
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	-	2,328,861
Fund balances				
Nonspendable	1,704	-	-	7,560
Restricted	-	-	20,120	3,684,842
Committed	21,001	155,791	-	517,036
Total fund balances	22,705	155,791	20,120	4,209,438
Total liabilities, inflows of resources, and fund balances	$ 82,619	$ 157,853	$ 20,120	$ 7,060,927

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Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2018

	Work Camp	Parks and Recreation	Groen Nature Preserve	University Center
Revenues				
Taxes	$ -	$ 311,102	$ -	$ 695,920
Federal sources	-	-	-	-
State sources	-	-	-	-
Charges for services	52,738	227,252	-	-
Fines and forfeits	-	-	-	-
Interest and rentals	-	11,475	-	60
Other revenue	76	22,676	196,192	4,785
Total revenues	52,814	572,505	196,192	700,765
Expenditures				
Judicial	-	-	-	-
General government	-	-	-	588,957
Public safety	137,989	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	598,925	203,057	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	137,989	598,925	203,057	588,957
Revenues (under) over expenditures	(85,175)	(26,420)	(6,865)	111,808
Other financing sources (uses)				
Transfers in	70,175	350	-	-
Transfers out	-	-	-	(243,550)
Total other financing sources (uses)	70,175	350	-	(243,550)
Net change in fund balances	(15,000)	(26,070)	(6,865)	(131,742)
Fund balances, beginning of year	16,975	266,761	30,091	279,286
Fund balances, end of year	$ 1,975	$ 240,691	$ 23,226	$ 147,544

Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling	Gypsy Moth Control
$ -	$ 375,795	$ -	$ 313,095	$ -
315,242	-	-	-	-
39,160	-	-	-	-
33,204	46,852	-	-	-
-	685	-	-	-
-	10,843	15	2,839	195
-	14,852	-	2,148	-
387,606	449,027	15	318,082	195
448,956	-	-	-	-
-	-	-	363,571	-
-	438,923	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
448,956	438,923	-	363,571	-
(61,350)	10,104	15	(45,489)	195
93,453	550	-	-	-
-	-	-	-	-
93,453	550	-	-	-
32,103	10,654	15	(45,489)	195
312,022	387,226	8,173	146,143	114,389
$ 344,125	$ 397,880	$ 8,188	$ 100,654	$ 114,584

Continued...

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2018

	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation	Library
Revenues				
Taxes	$ 228,362	$ -	$ -	$ 500,968
Federal sources	-	-	-	5,500
State sources	-	-	-	27,440
Charges for services	-	488,161	39,135	-
Fines and forfeits	-	-	-	168,835
Interest and rentals	-	9,686	-	17,869
Other revenue	-	-	-	106,544
Total revenues	228,362	497,847	39,135	827,156
Expenditures				
Judicial	-	-	-	-
General government	-	-	43,040	-
Public safety	-	457,737	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	-	-	672,380
Debt service:				
Principal	16,031	-	-	-
Interest and fiscal charges	1,762	-	-	-
Capital outlay	-	-	-	-
Total expenditures	17,793	457,737	43,040	672,380
Revenues under (over) expenditures	210,569	40,110	(3,905)	154,776
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	(10,000)	(11,142)	-
Total other financing sources (uses)	-	(10,000)	(11,142)	-
Net change in fund balances	210,569	30,110	(15,047)	154,776
Fund balances, beginning of year	14,864	933,219	99,938	623,108
Fund balances, end of year	$ 225,433	$ 963,329	$ 84,891	$ 777,884

Emergency 911 Funds	Concealed Pistol Licensing	Local Officers Training	Law Library	Department of Human Services
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
127,533	13,885	9,076	-	-
-	-	-	-	-
1,266	6	4	-	18
584,252	-	-	3,500	-
713,051	13,891	9,080	3,500	18
-	-	-	-	-
-	-	-	-	-
776,797	1,977	2,354	-	-
-	-	-	-	-
-	-	-	-	6,719
-	-	-	1,302	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
776,797	1,977	2,354	1,302	6,719
(63,746)	11,914	6,726	2,198	(6,701)
-	-	-	-	9,120
(22,300)	-	-	-	-
(22,300)	-	-	-	9,120
(86,046)	11,914	6,726	2,198	2,419
573,287	22,624	22,076	17,173	8,047
$ 487,241	$ 34,538	$ 28,802	$ 19,371	$ 10,466

Continued...

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2018

	Child Care Probate	Equipment Revolving	Bradford Lake Dam	Total
Revenues				
Taxes	$ -	$ -	$ -	$ 2,425,242
Federal sources	-	-	-	320,742
State sources	337,944	-	-	404,544
Charges for services	-	-	-	1,037,836
Fines and forfeits	-	-	-	169,520
Interest and rentals	-	339	48	54,663
Other revenue	62,886	-	-	997,911
Total revenues	400,830	339	48	5,410,458
Expenditures				
Judicial	-	-	-	448,956
General government	-	64,393	-	1,059,961
Public safety	-	-	-	1,815,777
Public works	-	-	-	-
Health and welfare	834,192	-	-	840,911
Recreation and culture	-	-	-	1,475,664
Debt service:				
Principal	-	-	-	16,031
Interest and fiscal charges	-	-	-	1,762
Capital outlay	-	-	-	-
Total expenditures	834,192	64,393	-	5,659,062
Revenues (under) over expenditures	(433,362)	(64,054)	48	(248,604)
Other financing sources (uses)				
Transfers in	235,270	152,464	-	561,382
Transfers out	-	-	-	(286,992)
Total other financing sources (uses)	235,270	152,464	-	274,390
Net change in fund balances	(198,092)	88,410	48	25,786
Fund balances, beginning of year	220,797	67,381	20,072	4,183,652
Fund balances, end of year	$ 22,705	$ 155,791	$ 20,120	$ 4,209,438

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OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Capital Projects Funds
December 31, 2018

	EMS Building Capital Project	Library Building	Library Construction Millage	Court Restoration Building
Assets				
Cash and cash equivalents	$ 3,787	$ 19,446	$ 17,207	$ 61,238
Investments	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Property taxes	138	-	472,719	-
Due from other governments	-	-	-	-
Advances to other funds	-	-	-	-
Advances to component units	-	-	-	-
Total assets	$ 3,925	$ 19,446	$ 489,926	$ 61,238
Liabilities				
Accounts payable	$ -	$ -	$ -	$ -
Due to other funds	-	-	-	-
Unearned revenue	138	-	-	-
Total liabilities	138	-	-	-
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	472,719	-
Fund balances				
Restricted	-	-	-	-
Committed	3,787	19,446	17,207	61,238
Unassigned (deficit)	-	-	-	-
Total fund balances	3,787	19,446	17,207	61,238
Total liabilities, deferred inflows of resources, and fund balances	$ 3,925	$ 19,446	$ 489,926	$ 61,238

Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Sportsplex Building Maintenance	University Center Capital Projects	Sportsplex Tennis Court Construction	Iron Belle Trail Capital Project
$ 169,140	$ 15,741	$ 219	$ 110,400	$ 560,747	$ -	$ 318,811
-	-	-	350,000	259,745	-	-
-	-	-	-	-	10,000	-
-	-	-	234,710	-	-	-
-	-	-	-	-	85,466	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
$ 169,140	$ 15,741	$ 219	$ 695,110	$ 820,492	$ 95,466	$ 318,811
$ -	$ -	$ -	$ -	$ -	$ -	$ 14,295
-	-	-	84	-	95,535	-
-	-	-	-	-	-	-
-	-	-	84	-	95,535	14,295
-	-	-	234,710	-	-	-
-	-	-	460,316	-	-	304,516
169,140	15,741	219	-	820,492	-	-
-	-	-	-	-	(69)	-
169,140	15,741	219	460,316	820,492	(69)	304,516
$ 169,140	$ 15,741	$ 219	$ 695,110	$ 820,492	$ 95,466	$ 318,811

Continued...

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Capital Projects Funds
December 31, 2018

	Capital Projects	Public Improvements Capital Project	Trail Head Capital Project	Total
Assets				
Cash and cash equivalents	$ 648,945	$ 1,346,281	$ -	$ 3,271,962
Investments	-	240,276	-	850,021
Receivables:				
Accounts	-	95,513	-	105,513
Property taxes	-	-	-	707,567
Due from other governments	-	-	-	85,466
Advances to other funds	-	20,844	-	20,844
Advances to component units	-	143,024	-	143,024
Total assets	$ 648,945	$ 1,845,938	$ -	$ 5,184,397
Liabilities				
Accounts payable	$ 24,590	$ -	$ 2,764	$ 41,649
Due to other funds	-	-	14,423	110,042
Unearned revenue	-	-	-	138
Total liabilities	24,590	-	17,187	151,829
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	-	707,429
Fund balances				
Restricted	-	1,845,938	-	2,610,770
Committed	624,355	-	-	1,731,625
Unassigned (deficit)	-	-	(17,187)	(17,256)
Total fund balances	624,355	1,845,938	(17,187)	4,325,139
Total liabilities, deferred inflows of resources, and fund balances	$ 648,945	$ 1,845,938	$ -	$ 5,184,397

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Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects Funds
For the Year Ended December 31, 2018

	EMS Building Capital Project	Library Building	Library Construction Millage	Court Restoration Building
Revenues				
Property taxes	$ 1,246	$ -	$ 460,873	$ -
State grants	-	-	-	-
Local sources	-	-	-	-
Charges for services	-	-	-	39,228
Interest and rentals	5	12,380	18,360	-
Other revenue	-	-	-	-
Total revenues	1,251	12,380	479,233	39,228
Expenditures				
Capital outlay:				
Public works	-	-	-	-
Recreation and culture	-	-	-	42,959
Other	-	-	-	-
Contribution to other governmental units	-	-	-	-
Total expenditures	-	-	-	42,959
Revenues over (under) expenditures	1,251	12,380	479,233	(3,731)
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	(787,500)	(900,688)	-
Total other financing sources (uses)	-	(787,500)	(900,688)	-
Net change in fund balances	1,251	(775,120)	(421,455)	(3,731)
Fund balances, beginning of year	2,536	794,566	438,662	64,969
Fund balances, end of year	$ 3,787	$ 19,446	$ 17,207	$ 61,238

Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Sportsplex Building Maintenance	University Center Capital Projects	Sportsplex Tennis Court Construction	Iron Belle Trail Capital Project
$ -	$ -	$ -	$ 231,074	$ 1,705	$ -	$ -
-	-	-	-	-	175,700	-
-	-	-	-	-	41,200	-
-	-	-	-	-	-	-
-	314	3	10,885	9,371	-	442
-	2,400	-	-	-	65,715	206,000
-	2,714	3	241,959	11,076	282,615	206,442
-	-	-	-	-	-	-
-	15,593	-	38,257	-	-	-
4,833	-	-	-	-	90,333	-
-	-	-	-	-	-	220,663
4,833	15,593	-	38,257	-	90,333	220,663
(4,833)	(12,879)	3	203,702	11,076	192,282	(14,221)
20,000	-	-	-	-	-	-
-	-	-	-	-	-	-
20,000	-	-	-	-	-	-
15,167	(12,879)	3	203,702	11,076	192,282	(14,221)
153,973	28,620	216	256,614	809,416	(192,351)	318,737
$ 169,140	$ 15,741	$ 219	$ 460,316	$ 820,492	$ (69)	$ 304,516

Continued...

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects Funds
For the Year Ended December 31, 2018

	Capital Projects	Public Improvements Capital Project	Trail Head Capital Project	Total
Revenues				
Property taxes	$ -	$ -	$ -	$ 694,898
State grants	-	-	-	175,700
Local sources	-	-	-	41,200
Charges for services	-	-	-	39,228
Interest and rentals	114	22,643	-	74,517
Other revenue	18,192	-	-	292,307
Total revenues	18,306	22,643	-	1,317,850
Expenditures				
Capital outlay:				
Public works	167,639	-	-	167,639
Recreation and culture	-	-	50,740	147,549
Other	-	-	-	95,166
Contribution to other governmental units	-	-	-	220,663
Total expenditures	167,639	-	50,740	631,017
Revenues over (under) expenditures	(149,333)	22,643	(50,740)	686,833
Other financing sources (uses)				
Transfers in	100,000	-	-	120,000
Transfers out	(33,553)	-	33,553	(1,688,188)
Total other financing sources (uses)	66,447	-	33,553	(1,568,188)
Net change in fund balances	(82,886)	22,643	(17,187)	(881,355)
Fund balances, beginning of year	707,241	1,823,295	-	5,206,494
Fund balances, end of year	$ 624,355	$ 1,845,938	$ (17,187)	$ 4,325,139

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OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position

Nonmajor Enterprise Funds
December 31, 2018

	Tax Foreclosure	Global Positioning System	University Center Metropolitan Area Network
Assets			
Current assets:			
Cash and cash equivalents	$ 157,319	$ 79,567	$ 143,447
Investments	1,613,401	-	-
Accounts receivable	204	-	1,728
Other assets	-	-	-
Total current assets	1,770,924	79,567	145,175
Noncurrent assets:			
Capital assets being depreciated, net	-	-	61,482
Total assets	1,770,924	79,567	206,657
Liabilities (all current)			
Accounts payable	8,602	15,860	21,319
Accrued liabilities	923	-	-
Unearned revenue	-	-	-
Total liabilities	9,525	15,860	21,319
Net position			
Investment in capital assets	-	-	61,482
Unrestricted	1,761,399	63,707	123,856
Total net position	$ 1,761,399	$ 63,707	$ 185,338

Airport Special Events	Advertising I-75 Sign	Jail Commissary	Homestead Audit	Total
$ 25,868	$ 2,991	$ 18,509	$ 12,288	$ 439,989
-	-	-	-	1,613,401
1,000	-	-	-	2,932
3,025	-	-	-	3,025
29,893	2,991	18,509	12,288	2,059,347
-	-	-	-	61,482
29,893	2,991	18,509	12,288	2,120,829
-	-	10,325	-	56,106
-	-	-	-	923
574	-	-	-	574
574	-	10,325	-	57,603
-	-	-	-	61,482
29,319	2,991	8,184	12,288	2,001,744
$ 29,319	$ 2,991	$ 8,184	$ 12,288	$ 2,063,226

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

Nonmajor Enterprise Funds
For the Year Ended December 31, 2018

	Tax Foreclosure	Global Positioning System	University Center Metropolitan Area Network
Operating revenues			
Charges for services	$ 136,005	$ 14,389	$ 81,403
Local sources	-	15,000	-
Total operating revenues	136,005	29,389	81,403
Operating expenses			
Salaries and fringes	54,643	-	-
Contractual services	-	43,600	-
Materials and supplies	2,300	22,118	-
Depreciation	-	-	12,301
Other	55,024	-	119,468
Total operating expenses	111,967	65,718	131,769
Operating income (loss)	24,038	(36,329)	(50,366)
Nonoperating revenues			
Investment earnings	43,901	-	-
Other	147,551	-	-
Total nonoperating revenues	191,452	-	-
Income (loss) before transfers	215,490	(36,329)	(50,366)
Transfers			
Transfers in	-	31,000	-
Transfers out	(18,184)	-	-
Total transfers	(18,184)	31,000	-
Change in net position	197,306	(5,329)	(50,366)
Net position, beginning of year	1,564,093	69,036	235,704
Net position, end of year	$ 1,761,399	$ 63,707	$ 185,338

Airport Special Events	Advertising I-75 Sign	Jail Commissary	Homestead Audit	Total
$ 94,850	$ -	$ 30,680	$ 57	$ 357,384
-	-	-	-	15,000
94,850	-	30,680	57	372,384
-	-	-	-	54,643
118,799	-	-	-	162,399
21,370	-	25,754	-	71,542
-	-	-	-	12,301
68,981	159	-	1,721	245,353
209,150	159	25,754	1,721	546,238
(114,300)	(159)	4,926	(1,664)	(173,854)
-	-	-	1,088	44,989
94,262	-	-	-	241,813
94,262	-	-	1,088	286,802
(20,038)	(159)	4,926	(576)	112,948
-	-	-	-	31,000
-	-	-	-	(18,184)
-	-	-	-	12,816
(20,038)	(159)	4,926	(576)	125,764
49,357	3,150	3,258	12,864	1,937,462
$ 29,319	$ 2,991	$ 8,184	$ 12,288	$ 2,063,226

OTSEGO COUNTY, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds
For the Year Ended December 31, 2018

	Tax Foreclosure	Global Positioning System	University Center Metropolitan Area Network
Cash flows from operating activities			
Receipts from customers	$ 135,801	$ 29,389	$ 86,868
Payments to suppliers	(50,145)	(51,058)	(107,087)
Payments to employees	(54,550)	-	-
Net cash provided by (used in) operating activities	31,106	(21,669)	(20,219)
Cash flows from noncapital financing activities			
Other receipts	147,551	-	-
Transfers in	-	31,000	-
Transfers out	(18,184)	-	-
Net cash provided by (used in) noncapital financing activities	129,367	31,000	-
Cash flows from investing activities			
Purchase of investments	(406,235)	-	-
Interest received on investments	43,901	-	-
Net cash (used in) provided by investing activities	(362,334)	-	-
Net change in cash and cash equivalents	(201,861)	9,331	(20,219)
Cash and cash equivalents, beginning of year	359,180	70,236	163,666
Cash and cash equivalents, end of year	$ 157,319	$ 79,567	$ 143,447
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	$ 24,038	$ (36,329)	$ (50,366)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	-	12,301
Change in operating assets and liabilities that provided (used) cash:			
Accounts receivable	(204)	-	5,465
Other assets	-	-	-
Accounts payable	7,179	14,660	12,381
Accrued liabilities	93	-	-
Unearned revenue	-	-	-
Net cash provided by (used in) operating activities	$ 31,106	$ (21,669)	$ (20,219)

Airport Special Events	Advertising I-75 Sign	Jail Commissary	Homestead Audit	Total
$ 95,444	$ -	$ 30,680	$ 57	$ 378,239
(208,550)	(159)	(19,285)	(2,116)	(438,400)
-	-	-	-	(54,550)
(113,106)	(159)	11,395	(2,059)	(114,711)
94,262	-	-	-	241,813
-	-	-	-	31,000
-	-	-	-	(18,184)
94,262	-	-	-	254,629
-	-	-	-	(406,235)
-	-	-	1,088	44,989
-	-	-	1,088	(361,246)
(18,844)	(159)	11,395	(971)	(221,328)
44,712	3,150	7,114	13,259	661,317
$ 25,868	$ 2,991	$ 18,509	$ 12,288	$ 439,989
$ (114,300)	$ (159)	$ 4,926	$ (1,664)	$ (173,854)
-	-	-	-	12,301
20	-	-	-	5,281
3,241	-	-	-	3,241
(2,641)	-	6,469	(395)	37,653
-	-	-	-	93
574	-	-	-	574
$ (113,106)	$ (159)	$ 11,395	$ (2,059)	$ (114,711)

OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position

Internal Service Funds
December 31, 2018

	Building and Grounds	Administrative Services	Health Care	Total
Assets (all current)				
Cash and cash equivalents	$ 95,444	$ 100,393	$ 149,013	$ 344,850
Investments	-	-	100,000	100,000
Accounts receivable	4,979	38	7,336	12,353
Inventories	-	325	-	325
Other assets	-	-	99,855	99,855
Total assets	100,423	100,756	356,204	557,383
Liabilities (all current)				
Accounts payable	28,289	958	83	29,330
Accrued liabilities	-	1,413	-	1,413
Total liabilities	28,289	2,371	83	30,743
Net position				
Unrestricted	72,134	98,385	356,121	526,640
Total net position	$ 72,134	$ 98,385	$ 356,121	$ 526,640

OTSEGO COUNTY, MICHIGAN

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

Internal Service Funds
For the Year Ended December 31, 2018

	Building and Grounds	Administrative Services	Health Care	Total
Operating revenues				
Charges for services	$ 456,955	$ 603,948	$ 1,192,129	$ 2,253,032
Operating expenses				
Salaries and fringes	15	547,034	1,177,035	1,724,084
Contractual services	252,934	-	-	252,934
Materials and supplies	15,288	7,367	-	22,655
Equipment repair and maintenance	5,915	1,087	-	7,002
Utilities	213,763	765	-	214,528
Other	4,504	10,804	-	15,308
Total operating expenses	492,419	567,057	1,177,035	2,236,511
Operating (loss) income	(35,464)	36,891	15,094	16,521
Nonoperating revenues				
Investment earnings	-	-	3,905	3,905
(Loss) income before transfers	(35,464)	36,891	18,999	20,426
Transfers				
Transfers out	-	(520)	-	(520)
Change in net position	(35,464)	36,371	18,999	19,906
Net position, beginning of year	107,598	62,014	337,122	506,734
Net position, end of year	$ 72,134	$ 98,385	$ 356,121	$ 526,640

Combining Statement of Cash Flows

Internal Service Funds
For the Year Ended December 31, 2018

	Building and Grounds	Administrative Services	Health Care	Total
Cash flows from operating activities				
Internal activity - receipts from other funds	$ 456,762	$ 603,948	$ 1,191,977	$ 2,252,687
Payments to suppliers	(417,937)	(21,651)	(1,186,890)	(1,626,478)
Payments to employees for services and benefits	(15)	(547,277)	-	(547,292)
Net cash provided by operating activities	38,810	35,020	5,087	78,917
Cash flows used by noncapital financing activities				
Transfers out	-	(520)	-	(520)
Cash flows provided by investing activities				
Sale of investments	-	-	100,000	100,000
Interest received on investments	-	-	3,905	3,905
Net change in cash and cash equivalents	38,810	34,500	108,992	182,302
Cash and cash equivalents, beginning of year	56,634	65,893	40,021	162,548
Cash and cash equivalents, end of year	$ 95,444	$ 100,393	$ 149,013	$ 344,850
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities				
Operating (loss) income	$ (35,464)	$ 36,891	$ 15,094	$ 16,521
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:				
Change in operating assets and liabilities that (used) provided cash:				
Accounts receivable	(193)	-	(152)	(345)
Prepaids	59,426	-	(8,166)	51,260
Accounts payable	15,041	(1,628)	(1,689)	11,724
Accrued liabilities	-	(243)	-	(243)
Net cash provided by operating activities	$ 38,810	$ 35,020	$ 5,087	$ 78,917

OTSEGO COUNTY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Fiduciary Funds
December 31, 2018

	General Agency	Payroll Imprest	Library Penal Fines	Michigan Municipal Risk Management Authority	Total
Assets					
Cash and cash equivalents	$ 1,204,844	$ 274,701	$ 86,377	$ 370,100	$ 1,936,022
Liabilities					
Undistributed tax collections	$ 848,250	$ -	$ -	$ -	$ 848,250
Bonds, restitutions, and payables to others	356,594	274,701	86,377	370,100	1,087,772
Total liabilities	$ 1,204,844	$ 274,701	$ 86,377	$ 370,100	$ 1,936,022

INTERNAL CONTROL AND COMPLIANCE

Rehmann

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

July 1, 2019

Honorable Members of the
Board of Commissioners
Otsego County
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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 1, 2019. 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. The financial statements of the Otsego County Commission on Aging were not audited in accordance with *Government Auditing Standards.*

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings, as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Otsego County's Response to Finding

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Rehmann Robson LLC

Schedule of Findings and Responses

For the Year Ended December 31, 2018

2018-001 - Material Audit Adjustments (Repeat)

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

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

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. These adjustments affected a variety of accounts, of the primary government, which included taxes receivable, capital assets, accrued expenses, long-term debt, and pension and OPEB liabilities and the related expenses.

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

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

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

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

■ ■ ■ ■ ■

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2018

2017-001 - Material Audit Adjustments - Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

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

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INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

July 1, 2019

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Otsego County, Michigan* (the "County") as of and for the year ended December 31, 2018, and have issued our report thereon dated July 1, 2019. 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 February 13, 2019, 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 July 1, 2019. In addition, we noted certain other matters which are included in Attachment A to this letter.

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 May 14, 2019.

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.

As described in Note 23 to the financial statements, the County changed accounting policies related to accounting for other postemployment plans by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements.

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 fair value determination of investments.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- 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.
- The assumptions used in the actuarial valuation of the other postemployment benefits plan are based on historical trends and industry standards.

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. The material misstatements detected as a result of audit procedures and corrected by management are described in Attachment B.

The schedule of adjustments passed is included with management's written representations in Attachment D 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 D 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 C 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 County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson LLC

OTSEGO COUNTY, MICHIGAN

Attachment A - Comments and Recommendations

For the December 31, 2018 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the County's internal control over financial reporting is described in our report, dated July 1, 2019, issued in accordance with *Government Auditing Standards.* This memorandum does not affect that report or our report dated July 1, 2019, on the financial statements of the Otsego County.

Lack of reconciliation of subsidiary ledgers to the general ledger

The County's general ledger software is interfaced with several subsidiary ledgers. We noted instances where the subsidiary ledger did not agree to the general ledger. It was determined that most of these variances were caused by manual journal entries posted to the general ledger. We recommend that administration reconciles all subsidiary ledgers to the general ledger on a monthly basis and evaluates the appropriateness of all manual entries recorded.

Management's Response:

Manual journal entries are required on occasion for accurate financial reporting. The County agrees that subsidiary ledgers should agree with the general ledger and will monitor to ensure such accuracy.

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OTSEGO COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

AJE	Account Number	Account Description	Debit/(Credit)
		Financial Statement Entries	
		Client Identified Entries	
1	499-000-202.000	Accounts Payable	$ (9,957.02)
	499-050-676.040	Reimbursement - General	9,957.02
	To record MMRMA reimbursement - PBC.		
2	736-000-001.002	Cash Reserve Bond Acct	47,608.25
	736-000-393.000	Restricted Fund Balance	(47,608.25)
	To adjust MMRMA liability to actual as of 12/31/2018 - PBC.		
3	281-901-980.000	Depreciation Expense	594,221.00
	281-000-137.000	Accum Depr - Bldgs, Addtn, Imp	(594,221.00)
	594-228-700.RR	Depreciation Expense	12,301.00
	594-000-137.000	Accum Depr - Bldgs, Addtn, Imp	(12,301.00)
	To adjust depreciation & capital assets for BTA and CUs to actual - PBC.		
4	934-000-0000.000-00005	Isf Net Income	37,510.00
	934-000-0000.000-00006	Isf Net Income - Allocate, General Gov	(37,510.00)
	934-000-0000.000-00013	Capital Outlay - Allocate, General Gov	196,220.00
	934-000-0000.000-00014	Capital Outlay - Allocate, Public Safety	155,026.00
	934-000-0000.000-00016	Capital Outlay - Allocate, Recreation	653,169.00
	934-000-0000.000-00018	Depreciation Expense - General Gov	(380,788.00)
	934-000-0000.000-00019	Depreciation Expense - Public Safety	(187,103.00)
	934-000-0000.000-00021	Depreciation Expense - Recreation	(355,229.00)
	934-000-0000.000-00023	Change In Comp Abs - General Gov	(36,252.00)
	934-000-0000.000-00032	Accrued Interest Payable - Building Authority Bonds	3,100.00
	934-000-0000.000-00036	Net Assets	1,140,448.00
	934-000-0000.000-00037	Principal Expense	709,115.00
	934-000-0000.000-00040	Amortization - Bond Premium/Discount	3,510.00
	934-000-0000.000-00041	Proceeds - Issuance Of Ltd	(2,253,099.00)
	934-000-0000.000-00042	Premium/Discount - Issuance Of Ltd	(21,059.00)
	934-000-0000.000-00045.1	Donated Capital Assets - General Gov	742,496.00
	934-000-0000.000-00045.2	Contributions To Other Government - In Cip	(32,460.00)
	934-000-0000.000-00056	Economic Development Revenue	(230,057.00)
	934-000-0000.000-00057	General Government Revenue	(35,000.00)
	934-714-001.00	Pension Expense-General Gov	(26,783.00)
	934-714-002.00	Pension Expense-Public Safety	(32,587.00)
	934-714-003.00	Pension Expense-Judicial	(19,422.00)
	934-714-004.00	Pension Expense-Rec&Culture	(8,310.00)
	934-714-005.00	Pension Expense-Health&Welfare	(595.00)
	934-714-006.00	Pension Expense-Comm/Econ Dev	(6,237.00)
	934-901-920.410	Service Contracts	9,863.00
	934-901-990.200	Interest Payment	12,034.00
	To close out 2017 GASB 34 activity to fund balance - PBC.		

OTSEGO COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

AJE	Account Number	Account Description	Debit/(Credit)
5	934-000-0000.000-00031	Accrued Interest Payable	$ 1,608.00
	934-901-990.200	Interest Payment	(1,608.00)
	To adjust interest expense to actual - PBC.		
6	934-000-0000.000-00028	Long-Term Debt, Net Of Current Portion	632,736.00
	934-000-0000.000-00029	Long-Term Debt, Current Portion	(2,120.00)
	934-000-0000.000-00037	Principal Expense	(631,031.00)
	934-000-295.000	Loans Payable	10,198.00
	934-000-295.RR	Long-Term Debt Current Portion	542.00
	934-901-920.410	Service Contracts	(10,325.00)
	PBC - To record current portion of long-term debt and to reclassify principal expense as reduction in long-term debt.		
7	934-000-0000.000-00005	Isf Net Income	10,299.00
	934-000-0000.000-00006	Isf Net Income - Allocate, General Gov	(10,299.00)
	To eliminate operating loss in internal service funds - PBC.		
8	934-000-0000.000-00001	Capital Assets, Not Being Depreciated	154,355.00
	934-000-0000.000-00002	Capital Assets, Being Depreciated	631,236.00
	934-000-0000.000-00002.1	Construction In Progress	2,451,385.00
	934-000-0000.000-00013	Capital Outlay - Allocate, General Gov	(422,168.00)
	934-000-0000.000-00014	Capital Outlay - Allocate, Public Safety	(27,095.00)
	934-000-0000.000-00016	Capital Outlay - Allocate, Recreation	(2,787,713.00)
	To record current year capital asset additions - PBC.		
9	934-000-0000.000-00002.2	Accumulated Depreciation	(936,554.00)
	934-000-0000.000-00018	Depreciation Expense - General Gov	392,020.00
	934-000-0000.000-00019	Depreciation Expense - Public Safety	175,805.00
	934-000-0000.000-00021	Depreciation Expense - Recreation	368,729.00
	To record current year depreciation - PBC.		
10	934-000-0000.000-00002	Capital Assets, Being Depreciated	203,117.00
	934-000-0000.000-00002.1	Construction In Progress	(203,117.00)
	To record current year transfer from construction in progress to capital assets being depreciated - PBC.		
11	934-000-0000.000-00003.1	Deferred Inflows	(12,094.00)
	934-000-0000.000-00057	General Government Revenue	12,094.00
	To eliminate revenue recognized in the funds for reduction in receivable - PBC.		

OTSEGO COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

AJE	Account Number	Account Description	Debit/(Credit)
12	934-000-0000.000-00003.2	Deferred Inflows-Experience	$ 23,499.00
	934-000-191.00	Deferred Outflows Pension -Contributions	(101,817.00)
	934-000-192.00	Deferred Outflows-Invest Earn	(658,570.00)
	934-000-193.00	Deferred Outflows Of Resources - Experience	(140,555.00)
	934-000-194.00	Deferred Outflows Of Resources - Assumptions	(214,035.00)
	934-000-361.00	Net Pension Liability	800,417.00
	934-714-001.00	Pension Expense-General Gov	82,989.00
	934-714-002.00	Pension Expense-Public Safety	100,973.00
	934-714-003.00	Pension Expense-Judicial	60,181.00
	934-714-004.00	Pension Expense-Rec&Culture	25,748.00
	934-714-005.00	Pension Expense-Health&Welfare	1,845.00
	934-714-006.00	Pension Expense-Comm/Econ Dev	19,325.00
	To record change in net pension liability and related deferred amounts - PBC.		
13	934-000-0000.000-00003	Deferred Inflows - Mortgages Receivable	(111,792.00)
	934-000-0000.000-00056	Economic Development Revenue	111,792.00
	To eliminate revenue recognized in the funds for reduction in receivable - PBC.		
14	934-000-0000.000-00023	Change In Comp Abs - General Gov	30,709.00
	934-000-0000.000-00034.1	Compensated Absences	(30,709.00)
	To record change in compensated absences - PBC.		
15	934-000-0000.000-00035	Otherpostemployment Benefits	362,080.00
	934-000-0000.000-00036	Net Assets	(362,080.00)
	To restate prior year OPEB Liability for GASB 75 - PBC.		
16	934-000-0000.000-00035	Otherpostemployment Benefits	(81,749.00)
	934-001-194.00	Opeb - Deferred Outflows Of Resources - Assumptions	27,356.00
	934-719-001.00	Opeb Expense-General Gov	42,242.00
	934-719-003.00	Opeb Expense-Judicial	12,151.00
	To adjust liability relating to retiree health insurance in accordance with GASB 75 - PBC.		
		Rehmann Identified Entries	
17	934-000-0000.000-00028	Long-Term Debt, Net Of Current Portion	(369,584.00)
	934-000-0000.000-00029	Long-Term Debt, Current Portion	10,000.00
	934-000-0000.000-00030	Bond Premium/Discount, Net	3,510.00
	934-000-0000.000-00040	Amortization - Bond Premium/Discount	(3,510.00)
	934-000-0000.000-00046	Building Authority Bonds	370,000.00
	934-000-0000.000-00047	Long-Term Debt Current Portion	(10,000.00)
	934-901-920.410	Service Contracts	(416.00)
	To adjust PBC #6 LTD entry to actual.		
18	934-000-0000.000-00023	Change In Comp Abs - General Gov	(5,544.00)
	934-000-0000.000-00034.1	Compensated Absences	5,544.00
	To adjust PBC #14 for change in compensated absences to actual.		
19	934-000-0000.000-00002	Capital Assets, Being Depreciated	(203,117.00)
	934-000-0000.000-00016	Capital Outlay - Allocate, Recreation	203,117.00
	To adjust PBC #8 capital asset additions to actual.		

OTSEGO COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

AJE	Account Number	Account Description	Debit/(Credit)
20	101-000-026.000	Taxes Rec - Real - Delq	$ 11,220.00
	101-010-411.000	Delinquent Real Property Taxes	(10,791.00)
	101-010-445.022	Int On Taxes	(429.00)
	To adjust delinquent taxes to actual; original posting by client was for 2017 amounts.		
21	101-864-920.410	Service Contracts	416.00
	101-864-930.150	Service Charges	(416.00)
	To adjust principal payments to actual based on amortization schedules - required elimination for GASB 34.		
22	214-010-420.000	Delinquent Pers Prop Taxes	2,298.00
	214-806-940.010	Outside Contracted Services	(2,298.00)
	701-000-225.001	Due To Schools - Kirtland	2,298.00
	701-000-225.001	Due To Schools - Kirtland	(2,298.00)
	To reclassify tax revenue from fund 214 to fund 701.		
23	232-400-676.010	Reimbursement - General	76,185.66
	232-999-999.000	Transfer Out	(76,185.66)
	233-050-699.030	Other Source - Transfers	76,185.66
	233-400-501.000-RENT REHAB	Federal Grants	(76,185.66)
	To reclassify federal revenue received from fund 232 to 233.		
24	226-000-202.000	Accounts Payable	(10,593.31)
	226-528-940.010-PROG000000	Outside Contracted Services	10,593.31
	516-000-202.000	Accounts Payable	(6,821.38)
	516-253-920.410	Service Contracts	6,821.38
	594-000-202.000	Accounts Payable	7,115.00
	594-228-700.000	Comp Unit Expenses	(7,115.00)
	637-000-202.000	Accounts Payable	(5,711.06)
	637-265-930.620-ALPCT00000	Electricity	5,248.13
	637-265-930.620-ALPCT00000	Electricity	462.93
	647-000-202.000	Accounts Payable	11,933.49
	647-851-704.110	Hospitalization	(6,347.82)
	647-851-704.110	Hospitalization	(5,585.67)
	To accrue expenditures related to 2018.		
25	934-000-0000.000-00005	Isf Net Income	6,222.00
	934-000-0000.000-00006	Isf Net Income - Allocate, General Gov	(6,222.00)
	To eliminate operating loss in internal service funds; additional adjustment required due to AJE's.		
25	934-001-194.00	Opeb - Deferred Outflows Of Resources - Assumptions	(499.00)
	934-719-001.00	Opeb Expense-General Gov	(54,776.00)
	934-719-003.00	Opeb Expense-Judicial	(15,686.00)
	934-000-191.001	Opeb - Deferred Outflows Of Resources - Contributions	70,961.00
	To adjust PBC #16 relating to retiree health insurance OPEB liability in accordance with GASB 75 to actual; adjusted to record the effect of contributions made subsequent to the measurement date.		

OTSEGO COUNTY, MICHIGAN

Attachment C – Upcoming Changes in Accounting Standards / Regulations

For the December 31, 2018 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 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 87 ■ Leases

Effective 12/15/2020 (your FY 2020)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

GASB 88 ■ Certain Disclosures Related to Debt

Effective 06/15/2019 (your FY 2019)

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the County.

GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period

Effective 12/15/2020 (your FY 2020)

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the County.

Attachment C – Upcoming Changes in Accounting Standards / Regulations

For the December 31, 2018 Audit

GASB 90 ■ Majority Equity Interests

Effective 12/15/2019 (your FY 2019)

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the County.

GASB 91 ■ Conduit Debt Obligations

Effective 12/15/2021 (your FY 2021)

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is *more likely than not* that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the County.

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OTSEGO COUNTY, MICHIGAN

Attachment D – Management Representations

For the December 31, 2018 Audit

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

Otsego COUNTY
ESTABLISHED 1875 MICHIGAN

Administration
225 West Main Street, Room 203
Gaylord, Michigan 49735
Phone 989-731-7527 • Fax 989-731-7529

July 1, 2019

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 (the "County") as of and for the year ended December 31, 2018, 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 July 1, 2019:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 13, 2019, 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.

23. We are responsible for the fair presentation of the County's other postemployment benefit plan liability as calculated by Watkins Ross and related amounts. We provided Watkins Ross with complete and accurate information regarding the County's participation in the plan, and have reviewed the information provided by Wakins Ross for inclusion in the County's financial statements.

Information Provided

24. 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.
25. All transactions have been recorded in the accounting records and are reflected in the financial statements.
26. 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.
27. We have disclosed to you all information that we are aware of regarding fraud or suspected fraud that affects the entity 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.
28. We have disclosed to you all information that we are aware of regarding allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
29. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
30. 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.
31. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
32. The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
33. We have disclosed to you all guarantees, whether written or oral, under which the County is contingently liable.
34. 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.
35. 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.

36. 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.
37. 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.

38. 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

39. 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

40. 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.

Rachel Frisch

Rachel Frisch, County Administrator

Mel Maier

Mel Maier, Finance Director

OTSEGO COUNTY, MICHIGAN

Schedule of Adjustments Passed (SOAP)

For the December 31, 2018 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					
General fund					
2017 - Overstated accounts receivable	$ 9,301	$ -	$ 9,301	$ -	$ -
2018 - Understatement of deferred revenue	-	(7,210)	-	7,210	-
Nonmajor governmental funds					
2017 - Unrecorded retainage	-	-	32,481	-	32,481
2018 - Overstatement of other assets	5,586	-	-	-	(5,586)
Governmental activities					
Cumulative effect of items noted above	$ 14,887	$ (7,210)	$ 41,782	$ 7,210	$ 26,895
Misstatement as a percentage of total assets - governmental activities	**0.07%**	**-0.03%**	**0.19%**	**0.03%**	**0.12%**
Business-type activities					
University Center Metropolitan Area Network fund					
2017 - Overstatement of accounts payable	$ -	$ -	$ (7,115)	$ -	$ (7,115)
Misstatement as a percentage of total assets - business-type activities	**0.00%**	**0.00%**	**-0.05%**	**0.00%**	**-0.05%**
Component units					
2018 - Understatement of payroll accrual in the Ambulance Fund	$ -	$ (7,140)	$ -	$ -	$ (7,140)
2018 - Understatement of capital assets in the Ambulance Fund	(15,955)	-	-	-	15,955
Component units					
Cumulative effect of items noted above	$ (15,955)	$ (7,140)	$ -	$ -	$ 8,815
Misstatement as a percentage of total assets - component units	**-0.20%**	**-0.09%**	**0.00%**	**0.00%**	**0.11%**

APPENDIX B

PROPOSER GUARANTEES

I. The proposer certifies it can and will provide and make available, as a minimum, all services set forth in Section II, Nature of Services Required.

Signature of Official:

Name (typed):

Title:

Firm:

Date:

APPENDIX C

PROPOSER WARRANTIES

A. Proposer warrants that it is willing and able to comply with State of Michigan laws and licensing requirements.

B. Proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a minimum of $1,000,000 coverage for the willful or negligent acts, or omissions of any officers, employees or agents thereof.

C. Proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of the COUNTY OF OTSEGO.

D. Proposer warrants that all information provided by it in connection with this proposal is true and accurate.

Signature of Official:

Name (typed):

Title:

Firm:

Date:

APPENDIX D

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES

FOR THE AUDIT OF THE [YEAR] FINANCIAL STATEMENTS

	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	___	___	___	
Managers	___	___	___	
Supervisory staff	___	___	___	
Staff	___	___	___	
Other (specify):	___	___		
Subtotal				
Total for services Described in Section II E of the RFP (Detail on subsequent pages)				

Other (specify):_____

Total all-inclusive maximum price for 2019 audit

Note: The rate quoted should not be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum price