

December 30, 2019



# Professional Auditing Services

PROPOSAL FOR  
**County of Otsego Michigan**

Submitted by:

**Rehmann**  
**Annette Eustice, CPA, CGFM, Principal**

[annette.eustice@rehmann.com](mailto:annette.eustice@rehmann.com)

Rehmann | 902 South Huron Street, P.O. Box 250 | Cheboygan, MI 49721 | 231.627.3143

 **Rehmann**

December 30, 2019

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

We wish to extend our sincere appreciation to the County of Otsego Michigan (the "County") for the opportunity we have had to be of service as your auditors for the past several years. We thoroughly enjoy working with you and your staff. We trust that you feel that the County benefits from our professional relationship as well.

Thank you for the opportunity to submit our proposal to audit the financial statements of the County of Otsego, Michigan as of and for the years ending December 31, 2019 - 2022. Our audits will be conducted in accordance with generally accepted auditing standards; *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance").

Our engagement will provide for annual report issuance in accordance with the terms and conditions set forth in your request for proposals and will include:

- Audit of the government's annual financial statements
- Certain limited procedures involving supplementary information
- Audit of federal awards and preparation of report on Single Audit Act compliance, when applicable
- Required auditor electronic submissions to state and federal governments

As a leading public accounting firm serving the governmental industry, you can be confident that Rehmann is well positioned to serve you. We will leverage our industry experience, technical skills and broad knowledge of issues impacting you to provide high-quality assurance services in a timely, efficient manner.

Our mission is to *deliver governmental business wisdom*. This means that you will:

- Have your audits managed and performed by full-time governmental professionals.
- Work with a team known for excellence and efficiency in government financial reporting.
- Take comfort in our extensive experience auditing federal awards.
- Have access to customized governmental training and value-added services.
- Benefit from our extensive/unique use of technology.
- Enjoy our transparent audit process that eliminates surprises.
- Understand and appreciate our approach of budgeting *better hours* rather than *more hours*.

As you know, we do a large volume of governmental audits, including counties, cities, schools and other governmental and nonprofit entities. By virtue of this, we truly understand your unique challenges, we know what to expect, we can share best practices and we are intimately familiar with your industry. This depth allows us to serve you with minimal disruption while maintaining a high level of engagement effectiveness and efficiency. This is a great match of your needs with our skills and resources.

In addition to staffing your audits with experienced *governmental auditors*, we bring with us a commonsense customer service approach. For example, we will provide you with a preliminary notice of findings if we have potential issues at the time items arise instead of days, weeks or months later when draft or final reports are generated.

Our reporting and overall engagement efficiency – part of our *better hours* rather than *more hours* philosophy – is anchored by our innovative use of Microsoft Excel for auditing and reporting templates. Besides facilitating much of what is described above, our templates are readily transferable and, given the proliferation of Excel in our daily work lives, easily applied to your needs.

We believe trust is earned through timely preparation and delivery of all financial reports and meeting agreed-upon deadlines. Our team will be dedicated to working with you in meeting your established timeframes for completion, and managing your evolving expectations throughout the audit.

In summary, the Rehmann value proposition is its experienced governmental auditors and the high-quality services we provide on time and at competitive prices.

This proposal is a firm, irrevocable offer for 90 days to provide independent auditing services at the prices quoted herein. The undersigned is authorized to bind our Firm to any agreement resulting from this proposal and to make representations on behalf of our Firm.

Thank you for considering Rehmann. Feel free to contact us at any time.

Sincerely,

**Rehmann Robson**



Annette Eustice, CPA, CGFM  
Principal

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# The Rehmann Experience

At Rehmann, we combine our knowledge and experience to resolve the challenges our clients face. We provide forward-thinking solutions and immerse ourselves into our client's business. At the end of the day, we help our clients achieve their goals.



## Office Locations

Ann Arbor, MI.....	734.761.2005
Battle Creek, MI.....	269.979.4316
Bonita Springs, FL.....	239.992.6211
Cheboygan, MI .....	231.627.3143
Detroit, MI .....	313.202.7400
East Lansing, MI .....	517.333.6540
Farmington Hills, MI.....	248.579.1100
Fort Myers, FL.....	239.992.6211
Grand Rapids, MI.....	616.975.4100
Grandville, MI.....	616.222.9200
Jackson, MI.....	517.787.6503
Jupiter, FL.....	561.694.1040
Lansing, MI .....	517.316.2400
Midland, MI.....	989.631.3131
Midland, MI ( <i>Technology Solutions</i> )....	989.486.8198
Muskegon, MI.....	231.739.9441
Naples, FL .....	239.254.5057
Saginaw, MI.....	989.799.9580
Stuart, FL .....	772.283.7444
Toledo, OH.....	419.865.8118
Traverse City, MI.....	231.946.3230
Troy, MI.....	248.952.5000
Vero Beach, FL.....	772.234.8484

## Professional Service Lines

### Advisory & Tax and Assurance

- Tax advisory, compliance and preparation
- Specialized tax focus (R&D, SALT, international, cost segregation, M&A, estate & trust)
- Assurance and financial reporting
- Strategic business planning and advisory

### Managed Services and Outsourcing Solutions

- Finance and accounting solutions
- Technology solutions (managed security, IT, cloud and networks)
- Human resource solutions

### Specialized Consulting

- Corporate investigations and security
- Business valuation
- Turnaround, restructuring and insolvency
- Litigation support

### Wealth Management

- Asset management and financial planning
- Risk analysis and evaluation of insurance coverage
- Planning and analysis for retirement, estate and education savings

## Industries Served

Rehmann serves a wide range of clients. A full list of industries can be found on rehmann.com.

- Healthcare
- Manufacturing
- Construction
- Private Equity
- Government
- Individuals & Private Households
- Financial Services
- Not-for-Profit
- Commercial
- Education

## International Affiliation

Rehmann is a member of Nexia International, a network of independent accounting and business services firms that enables members to provide clients with local knowledge in any overseas marketplace.

## General Requirements

Our role as your independent external auditor is to deliver assurance services in an efficient manner, without disruption to your staff, while maintaining a high level of quality. Accordingly, we affirm that:

### INDEPENDENCE

Rehmann is independent (as defined under the independence standards in auditing standards generally accepted in the United States of America and the U.S. General Accounting Office's *Government Auditing Standards*) of the County of Otsego, Michigan and all of its component units. We are aware of no professional relationships involving the County or any of its agencies or component units within the last five years which would represent potential conflicts of interest; however, we will provide the County with written notice of any pertinent professional relationships entered into during the term of our contract.

### LICENSE TO PRACTICE IN MICHIGAN

Rehmann and each certified public accountant to be assigned to the engagement are properly licensed to practice public accounting in the State of Michigan.

## Firm qualifications and experience

Rehmann formed in the early 1940's. We have since grown to become a fully integrated financial services and advisory firm that provides accounting and assurance, comprehensive technology, accounting and human resource solutions, specialized consulting and wealth management services with over 900 associates in Michigan, Ohio and Florida. The firm employs a forward-thinking service model that guarantees complete client satisfaction and confidence.



### Governmental industry experience

Providing governmental business wisdom requires that we have an intimate understanding of your operations. Rehmann's Governmental Industry Group includes 50 professionals who are dedicated full-time to governmental engagements on a year-round basis and another 75 full-time Rehmann associates who spend a significant amount of time working on public sector audits on a seasonal basis.



We serve  
**700**  
public sector  
entities comprised of



### Industry involvement

Over the past year, we invested over 130,000 hours in governmental, not-for-profit and higher education clients including:

- Counties
- Cities
- Villages
- Townships
- Public school districts
- Transit agencies
- Public authorities
- Community mental health authorities

[ **200**  
governmental  
clients ]  
+  
[ **500**  
other clients ]

### SERVICE OFFICE

Your audits will be managed and performed by governmental audit and financial reporting professionals from our Cheboygan office with technical standards support from our Grand Rapids and Saginaw office executives. Two principals (the signing engagement principal and a concurring review principal), one manager, one senior and two staff auditors will be assigned to the County audit. All individuals assigned to your audits will be full-time employees of Rehmann.

### PEER REVIEW

The AICPA's peer review program requires that a CPA firm have an independent audit of its quality control documents, systems and procedures every three years. A copy of our most recent peer review report, which included a review of specific government engagements and for which Rehmann received a peer review rating of *pass*, is included in the appendix.

### AGENCY REVIEWS

The Firm has no record of substandard work. We have received no negative comments from the numerous routine field and desk reviews which have taken place on the audits submitted to the various state departments and single audit clearing house over the last several years.

## Partner, Supervisory and Staff Qualifications and Experience

Your audits will be managed by full-time governmental auditors. The benefit to the County is that your people will not waste their valuable time teaching auditors about governmental accounting and reporting, or the nuances of County operations. Instead, with Rehmann, your engagements will be staffed with a team of governmental professionals who can work with you as peers, sharing knowledge and best practices, and meeting your completion deadline. Another continuing benefit will be ready access to these professionals to answer questions, discuss options and receive timely technical assistance.



"With Rehmann's client service philosophy, nothing is more important than a timely response to your questions and concerns. We will not keep you waiting."

STEPHEN BLANN, CPA, CGFM, CGMA  
Principal, Rehmann Governmental Industry Group

### REHMANN CLIENT SERVICE PHILOSOPHY

**One Team. One Focus. Your Success** – Your Rehmann team will have the optimal combination of skills and experience to support your success. Your primary business advisor, **Annette Eustice, CPA, CGFM**, is a governmental audit principal with over 20 years of experience serving counties. Annette will:

- Be integrally involved in planning and overseeing your audits.
- Ensure we are meeting and exceeding your needs by delivering *governmental business wisdom*.
- Provide access to additional resources available within our Firm and through our industry networks.

The Rehmann client service delivery model ensures you will have *direct access* to all members of your Rehmann team. Throughout the year, you can expect an objective Rehmann advisor to serve as County's client ambassador. Your client ambassador will ask for feedback on the quality of our service and about your experience as a Rehmann client to ensure we are doing all that we can to exceed your expectations.

In addition, a secondary principal, **Stephen Blann, CPA, CGFM, CGMA, Director of Government Audit Quality Principal**, who is a governmental audit principal with more than 20 years of experience serving all types of governmental units, will be available as a backup for Annette or for partner rotation in future periods, if desired.

**Kari Kortz, CPA** will serve as the engagement manager and will be responsible for overseeing the engagement, completing fieldwork and supervising staff. Kari has significant experience serving governmental entities. In addition to overseeing fieldwork, Kari will maintain active communication with County throughout the year.

In addition, we will assign one of our experienced senior auditors (in-charge) to conduct and supervise the daily fieldwork. The specific individual assigned will be determined once the exact timing of the audit fieldwork is finalized. All of our in-charge auditors have extensive County audit experience. Whoever is assigned will be on-site at the County on a full-time basis for the duration of the fieldwork for each annual audit and we will seek to assign the same in-charge for the entire audit contract term.

Our staff accountants have one to five years of experience and will perform many of the audit procedures, as directed by the engagement executives. The final decision of which individual staff we will assign to your audits will be made when we prepare our schedule.

Biographical resumes of these executives are included on the following pages.

#### **REHMANN'S COMMITMENT TO DIVERSITY IN THE WORKPLACE**

Rehmann is an equal opportunity employer. Therefore, the Firm does not, and will not, engage in unlawful discrimination against any associate or applicant for employment because of age, sex, race, religion, creed, color, national origin, ancestry, marital status, family status, height, weight, disability or status as a Vietnam-era or special disabled veteran in accordance with applicable federal laws.

In addition, Rehmann complies with applicable state and local laws governing nondiscrimination in employment in every location in which Rehmann has facilities. This policy applies to all terms and conditions of employment, including, but not limited to, hiring, placement, promotion, termination, layoff, recall, transfer, leaves of absence, compensation, and training.

Consequently, in making employment decisions, Rehmann will consider both objective and subjective factors such as education, training, skills developed, prior job experience, prior job performance, attitude, ability to work with others, leadership and potential for growth in the job.

To further the principle of equal employment opportunity for all, the Firm continues to:

- Follow employment procedures that assure equal consideration and opportunity for all applicants and associates.
- Recruit from schools, colleges, universities, local state employment services and other responsible groups in order to make job opportunities available to all.
- Cooperate with representatives of minority groups to encourage employment applications from members of these groups and acquaint their representatives with qualifications expected and required to obtain and maintain employment with the Firm, and to discuss matters within the scope of this policy.
- Implement Equal Employment Opportunity having the long-term objective of providing employment opportunities to minority and female individuals with the requisite skills.

- Make reasonable accommodations in accordance with state and federal disability laws, once requested by an associate or applicant. Requests should be submitted to the Human Resources Department. Reasonable accommodations are those that do not impose an undue hardship on the conduct of the Firm's business.

The Firm is prepared to submit reports and details of its employment practices as may be required by appropriate agencies of the Federal and State government. In all its activities, the Firm will continue its policy of equal employment opportunity. To this end, the Firm invites the active and constructive help of those whose interest lie in creating greater job opportunities for all.



## Annette M. Eustice, CPA, CGFM

PRINCIPAL

 231.627.8381

 [annette.eustice@rehmann.com](mailto:annette.eustice@rehmann.com)

 **Grand Valley State University**  
MBA, accounting

**Central Michigan University**  
BS, education

As your key business advisor, I promise to deliver proactive solutions to help you reach your personal and professional goals.

### CURRENT ROLE

Annette combines her diverse assurance service offerings with an approachable manner to consistently deliver future focused advice to her clients in simple, easily-understood terms.

She is member of the Firm's assurance training committee, utilizing her strong skills as a former educator to ensure Rehmann associates are well trained and knowledgeable about issues such as audit risk assessment, analytical review procedures, financial statement analyses, and implementation of new software technology.

### SERVICE AREAS

- Governmental auditing and single audit services
- Governmental consulting and outsourcing
- Retail and wholesale entity assurance services
- Native American government and casino auditing and controllership services
- Construction contractor assurance services
- Financial institution assurance services

### EXPERIENCE

Annette has over 20 years of public and private accounting experience. She has performed audit and assurance and business advisory services for various entities including governmental units, intermediate and local school districts, universities, financial institutions, Native American tribal governments, Native American casinos, construction contractors, hospitality and retail entities.

Prior to joining Rehmann in 1995, Annette was an associate professor of accounting at Baker College in Muskegon, Michigan for fourteen years. She also provided tax and compilation services as a sole practitioner from 1990 through 1995.

Annette values her long-term client relationships because they provide a historical perspective that enables her to identify challenges and opportunities and deliver fresh ideas to ensure their continued success.

### A CLOSER LOOK

- Annette has presented at Michigan Township Association (MTA) conferences on governmental accounting issues and often provides internal educational seminars to her clients.
- Active in her community, Annette currently serves as President Emeritus of Rotary Club of Cheboygan.
- Annette is a Certified Governmental Financial Manager, demonstrating her knowledge of governmental accounting, auditing, internal controls, budgeting and financial reporting.
- Annette is involved in the Michigan School Business Officials.



## Stephen W. Blann, CPA, CGFM, CGMA

PRINCIPAL

Governmental and Not-for-Profit Services

 616.975.2810

 [stephen.blann@rehmann.com](mailto:stephen.blann@rehmann.com)

 **Indiana Wesleyan University**  
BS, accounting and business  
administration

In addition to their day to day responsibilities, our public sector clients must follow a wide array of compliance requirements and demonstrate their public accountability. Rehmann's governmental specialists have the technical expertise to help them meet these unique challenges, while delivering our services through a personalized, client-focused approach.

### CURRENT ROLE

As the Firm's director of government audit quality, Stephen is responsible for setting quality control standards, developing practice aids and training programs (both internally and for clients), and serving as the technical quality control principal for audit reviews. Stephen also provides outsourced CFO services to governments and not-for-profit organizations.

### SERVICE AREAS

- Governmental and not-for-profit auditing and consulting
- Outsourced CFO services and consulting
- Technology utilization and training
- Custom spreadsheet and database programming

### EXPERIENCE

Stephen has been with Rehmann since 1995, during which time he has concentrated exclusively in the governmental and not-for-profit sector. Stephen is a Certified Government Financial Manager (CGFM) and a Chartered Global Management Accountant (CGMA) and is licensed as a CPA in both Michigan and Florida. Stephen's client base is comprised of counties, cities, villages, townships, road commissions, community mental health authorities, local and intermediate school districts, Native American tribal governments and a variety of not-for-profit organizations.

### A CLOSER LOOK

- Stephen is an active member of and nationally recognized speaker for various professional organizations, including the GFOA, NAFOA, MACMHB, AGA, FICPA and MICPA. His presentations focus on current issues in governmental accounting and financial reporting, grant compliance, internal controls and technology utilization.
- Since 2003, Stephen has served as an advisor on the GFOA Standing Committee on Accounting, Auditing, and Financial Reporting.
- Stephen is a member of the AICPA State and Local Government Expert Panel and the education director of the West Michigan Chapter of the AGA.
- Stephen provides multiple CFO outsourcing clients with a broad range of services, including establishing effective internal controls, creating deficit elimination plans, developing budgeting strategies and managing grants.
- Through frequent interaction with governmental and industry organizations, such as GASB and the AICPA, Stephen continuously monitors and responds to professional changes as they are being developed to ensure clients and Rehmann associates have access to national resources and robust training opportunities.



## Douglas Deeter, CPA

PRINCIPAL

Governmental and Not-for-Profit Services

 989.797.8374

 [doug.deeter@rehmann.com](mailto:doug.deeter@rehmann.com)

 **Lake Superior State University**  
BS, accounting  
BS, business administration

I enjoy working directly with clients and providing them with the tools and resources they need to be successful.

### CURRENT ROLE

Doug is a leader in the firm's governmental and not-for-profit assurance and consulting practice. He provides a range of assurance and outsourcing services to numerous governmental and not-for-profit clients.

Doug is a member of the Firm's government audit quality control subcommittee, which ensures compliance with technical standards and Firm-wide consistency. A thought leader in the industry, Doug leads training courses throughout the Firm on new governmental standards.

### SERVICE AREAS

- Governmental and not-for-profit auditing and consulting
- Federal award compliance and auditing
- K-12 and ISD/ESD audits
- Tribal governments and casinos
- Outsourced controllership and human resource services

### EXPERIENCE

Doug's career began in 1999. He has been with Rehmann for 18 years overall. Throughout his career, Doug has served tribal governments and casinos, cities, counties, intermediate and local school districts, townships, community mental health authorities and not-for-profit organizations. Additionally, Doug has significant experience working as a controller/chief financial officer.

### A CLOSER LOOK

- Doug has spoken at state conferences on topics including internal controls, accounting standards and fraud.
- Passionate about helping others succeed, Doug is a mentor in Rehmann's leadership development program.
- Doug is a member of the Government Finance Officers Association, Michigan Government Finance Officers Association, AICPA and MICPA.



## Kari Kortz, CPA

ASSURANCE MANAGER

 231.627.8384

 kari.kortz@rehmann.com

 Lake Superior State University  
BS, accounting and business  
administration

My goal is to help clients understand the financial reporting process and to help them establish processes and procedures that make each year's audit a more valuable and enjoyable experience.

### CURRENT ROLE

Kari is an assurance manager and is based in the Cheboygan office. She works closely with clients to effectively manage the audit process and develop a deep understanding of their operations, which enables her to share knowledge and best practices across her client base. She assists with the preparation and review of audit documentation and financial statements and proactively recommends improvements to internal controls. Her broad background includes working with counties, cities, and school districts, as well as employee benefit plans, financial institutions and other for-profit entities.

Additionally, Kari serves on Rehmann's government audit quality control subcommittee, ensuring compliance with technical standards and Firm-wide consistency.

### SERVICE AREAS

- Audit and assurance services
- Governmental consulting services
- Internal control consulting services
- Internal audit services for financial institutions
- Inventory observation services

### EXPERIENCE

Kari started her career in public accounting with Rehmann in 2000. Between 2000 and 2006, she advanced from staff auditor to audit manager, specializing in financial institutions. In 2006, she left public accounting and transitioned to local government as the Finance Director and later the Assistant County Administrator for Cheboygan County, where her responsibilities included financial reporting, budgeting, payroll and employee benefit administration and grant compliance and reporting through 2018. In 2018, Kari returned to Rehmann and is currently focusing on guiding the assurance department in the Cheboygan office, training staff to exceed the expectations of their audit, review and compilation clients and developing them as trusted business advisors.

### A CLOSER LOOK

- Kari is a member of the AICPA and MICPA. She presented at the May 2016 MICPA conference on "Audit Perspectives from the Other Side."
- Kari is actively involved in her community, serving as a member of the Cheboygan Youth Center Board of Directors, a non-profit organization providing after school and summer programming for local at-risk youth. She also serves as the financial secretary for St. Thomas Church.

## EXCELLENCE IN GOVERNMENT FINANCIAL MANAGEMENT

Many of our professionals carry the dual designation of CPA/CGFM (Certified Government Financial Manager), which emphasizes our strong commitment to the governmental sector. Our executives are frequently featured as speakers, both locally and nationally, on topics of importance to local governments. Furthermore, Rehmann has a large number of registered reviewers for the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting (CAFR) Program.

Associates designated as “CPAs” are licensed to practice public accounting in the State of Michigan, and are current and in good standing with the Board of Accountancy’s continuing professional education requirements. In addition, all such individuals are current and in good standing with the yellow book governmental continuing professional education requirements.

Associates designated as “CGFMs” are recognized by the Association of Government Accountants as Certified Government Financial Managers. The CGFM designation is a mark of excellence in government financial management, which signifies the highest level of education, experience, and ethical standards in the governmental environment. Rehmann currently has 11 professionals with the CGFM designation.

## CONTINUING PROFESSIONAL EDUCATION

To maintain our competitive edge and to stay ahead of the curve on technical quality, we place significant emphasis on continuing professional education with appropriate focus on industry specialization and relative responsibility levels. We readily exceed the State and GAO’s biennial CPE hour requirements through a variety of external and internal programs.

### External programs

- MICPA annual spring and fall governmental auditing and accounting updates - Rehmann sends several governmental team members.
- Annual GFOA national conference - Rehmann sends one to two people as speakers and attendees.
- Annual GFOA teleconference (conducted in November) - attended by many of Rehmann’s senior and executive level staff.

### Internal programs

- Rehmann sponsors multiple training opportunities in West Michigan each year through its involvement with the Association of Government Accountants (AGA). The opportunities total approximately 40 hours per year.
- Annual governmental technical updates, held in June and November, are mandatory for all industry group members.
- Annual audit and assurance service training provides updates on auditing standards with an emphasis on engagement planning, risk assessment, and analytical review techniques. Held in the summer, the training includes governmental breakouts with separate programs for beginning, intermediate and advanced staff.
- Quarterly webinars provide the latest developments in accounting, auditing, and financial reporting standards.

### **Requirement details**

We consider our professional staff members to be our most valuable asset and we are committed to their professional development throughout their career at Rehmann. Each of our professional staff members must spend 40 hours each year in accounting and related studies for his/her continuing education and related development.

You can be assured that all professionals designated as CPAs meet or exceed the State and GAO's CPE hour requirements. Rehmann logs each CPE course that associates attend through our centralized CPE tracking software. Detailed CPE reports are readily available for specific individuals upon request.

### **EXPERIENCE AUDITING FEDERAL AWARDS**

Rehmann's government, not-for-profit and higher education team is staffed by professionals who primarily focus on governmental accounting, auditing and consulting, so all of the professionals assigned to County's engagement will have extensive prior experience in auditing federal programs. Each year, we audit organizations administering hundreds of millions of dollars in federal awards. Accordingly, during 2018 (the last year for which complete data is available) we conducted 105 single audits for public sector clients totaling more than \$700 million in federal awards expended.

One of the benefits in serving a large number of governmental entities is the experience that we gain from it. This includes experience with a broad range of federal programs. In addition, our executives routinely lead training seminars for the MICPA, GFOA and other organizations on conducting federal single audits. What this means is that you will not have to educate your auditors about your federal programs, but instead you will receive meaningful comments and advice on how to enhance your financial management of those programs.

### **CHARTER MEMBER OF THE AICPA GOVERNMENTAL AUDIT QUALITY CENTER**

The AICPA Governmental Audit Quality Center (GAQC) is committed to helping its members achieve the highest standards in performing quality governmental audits. The Center's primary purpose is to promote the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services. Members of the Center demonstrate their commitment to these standards by voluntarily agreeing to adhere to Center requirements. The Center provides an online forum for sharing best practices as well as discussion on audit, accounting and regulatory issues.

**SINGLE AUDITS PERFORMED BY REHMANN (FOR FISCAL YEARS ENDING IN 2018)**

Type of entity	Number of clients audited	Total federal expenditures
City	5	15,999,573
County	18	125,132,880
School	39	91,446,705
Tribe	3	37,919,396
Other governmental entities	8	49,921,880
Higher education	16	346,237,276
Nonprofit	16	<u>76,340,811</u>
<b>Grand total</b>	<b>105</b>	<b><u>742,998,521</u></b>

**REHMANN IS CONNECTED**

Rehmann is actively involved in industry associations that provide access to professionals with governmental and not-for-profit experience across the country, including:

- American Institute of Certified Public Accountants (member of the Government Audit Quality Center and member of the State and Local Government Expert Panel)
- Florida Institute of Certified Public Accountants
- Ohio Society of Certified Public Accountants
- Michigan Association of Certified Public Accountants (member/past chair of the governmental taskforce, and regularly provide speakers to train other CPAs across the state)
- Institute of Internal Auditors
- Government Finance Officers Association (multiple special review committee members, and an advisor to the CAAFR Committee)
- Florida Government Finance Officers Association
- Michigan Government Finance Officers Association (board member and member of the Standards Committee)
- Michigan Local Government Managers Association
- Michigan Municipal Treasurers Association
- Michigan Association of County Treasurers
- Michigan Association of Counties
- Michigan School Business Officials
- Michigan Association of School Boards
- Michigan Committee on Governmental Accounting and Auditing Statements
- Michigan Association of Community Mental Health Boards
- Association of Government Accountants (four board members and 11 CGFM's)

**COMMITMENT TO QUALITY**

- Earned ClearlyRated's Best of Accounting™ Award for client service excellence for the fourth year in a row
- Registered with the Public Companies Accounting Oversight Board (PCAOB)
- Successfully completed all peer review requirements since inception of AICPA Quality Control Standards in 1979

- Named one of the 2018 Best and Brightest Companies to Work For In The Nation
- Recognized as one of the 101 Best and Brightest Companies to Work For in both Metro Detroit and West Michigan
- Ranked as number 32 in the 2019 Top 100 Firms and the 14th fastest-growing firm in the U.S. by Accounting Today



“At Rehmann, we believe the experience you have working with us is as important as the services we deliver. Each day, our goal is to help you get the most out of your Rehmann Experience. Simply put, we want to exceed your expectations.”

RANDY RUPP, CPA  
CEO

### ACCESS TO CUSTOMIZED TRAINING FOR GOVERNMENTAL ENTITIES

Drawing on our extensive background of providing auditing and consulting services to governmental and related nonprofit entities, Rehmann has developed a wide array of training sessions specifically targeted to the public sector. Following are several options we have for government financial managers:

#### Governmental webinar series

We host various webinars to update our clients and prospects on new issues related to the public sector. Following is a list of topics recently covered at our governmental seminar series:

- Practical implementation of GASB 84, fiduciary activities
- Mitigating the risk of fraud in the public sector
- Pension updates: GASB 67/68 (and OPEB under GASB 74/75)
- Excel tips and tricks for financial reporting
- Grants management
- 2 CFR Uniform Guidance
- Single audit: sub-recipient monitoring

#### Publications

We keep you informed about important issues through face-to-face communication and through our publications. Our monthly email newsletter, “BWDexpress,” covers technical changes and addresses relevant, practical issues – authored by our dedicated team of Rehmann advisors. You'll also receive invites to exclusive Rehmann events and more.

Want to see a sample of what Rehmann has to offer? Visit our government publications and resources web page at [www.rehmann.com/government\\_resources](http://www.rehmann.com/government_resources).

## OUR COMMITMENT TO LOCAL GOVERNMENTS

Rehmann is committed to providing high-quality, low-cost CPE to government financial managers through our involvement in various industry associations. In particular, Rehmann was instrumental in chartering the West Michigan Chapter of the Association of Governmental Accountants (AGA). Stephen Blann, Rehmann's director of government audit quality, is currently the education director and past president, and Rehmann professionals hold several board seats.



AGA West Michigan provides approximately 40 hours of courses per year. On a quarterly basis, Rehmann sponsors, develops and delivers a variety of these training events, including a three-day, in-depth training program called the "Governmental Accounting Training Series" (GATS).

As a Rehmann client, you may attend any event sponsored by our Firm at no-cost as part of Rehmann's strategic partnership with the AGA. In addition, Rehmann clients may access recorded versions of any Firm-sponsored training event. Through Rehmann articles, direct mailings, and participation in these AGA programs, our clients stay well-informed about changing professional standards.



### MORE EXPERIENCE

Our clients expect integrated solutions that provide real, tangible value — both short term and long term — and they know they can count on us to deliver.

# Prior Engagements With Otsego County

**Client:** Otsego County  
**Services provided:** Financial and single audit  
**Total staff hours:** 400  
**Date gained:** 2014  
**Engagement executives:** Annette Eustice, Kari Kortz  
**Client contact information:** Annette Eustice, 231.627.8381

**Client:** Otsego County Bus System  
**Services provided:** Financial audit  
**Total staff hours:** 150  
**Date gained:** 2015  
**Engagement executives:** Annette Eustice, Kari Kortz  
**Client contact information:** Annette Eustice, 231.627.8381

## Similar engagements

Below are several engagements performed by our local office in the last five years that are similar to County's engagement.

**Client:** Kalkaska County  
**Services provided:** Financial audit  
**Total staff hours:** 200  
**Date gained:** 2014  
**Engagement executives:** Kim Lindsay, CPA  
**Client contact information:** Kohn Fisher, Chairman of the Board of Commissioners, 231.258.5178

**Client:** Leelanau County  
**Services provided:** Financial audit  
**Total staff hours:** 300  
**Date gained:** 1997  
**Engagement executives:** Paul Matz, CPA, CGFM and Steve Peacock, CPA  
**Client contact information:** Michelle Crocker, Clerk, 231.256.9824

**Client:** Mecosta County  
**Services provided:** Financial and single audit  
**Total staff hours:** 300  
**Date gained:** 2005  
**Engagement executives:** Paul Matz, CPA, CGFM  
**Client contact information:** Mindy Taylor, Finance Officer, 231.592.8299

**Client:** City of Gaylord  
**Services provided:** Financial and single audit  
**Total staff hours:** 300  
**Date gained:** 2008  
**Engagement executives:** Annette Eustice and Kari Kortz  
**Client contact information:** Joe Duff, City Manager, 989.732.4060

We strongly encourage you to contact our clients directly to learn about the service they receive from Rehmann.

"I appreciate that Rehmann wants to do things right. They don't want to just get the job done and move on to another audit."

WASHTENAW COUNTY  
 Terrance Ballantyne, Senior Accountant

"We are very satisfied with the services Rehmann provides. The ease of contacting our Rehmann team with questions and their turnaround time with answers has been exceptional."

CITY OF BAY CITY  
 George Martini, Finance Director

## Specific audit approach

Rehmann is committed to delivering high quality assurance services in a timely, efficient manner.

### DELIVERABLES

- Financial and single audit, when applicable, for the years ending December 31, 2019 - 2022
- Preliminary notice of finding as potential audit issues are identified
- Preparation of a management letter of comments and recommendations
- Exit conference with management
- Presentations to the finance (or audit) committee and/or board
- Due diligence reviews of various official statements for periodic debt issuances, if requested
- Availability for ongoing technical assistance throughout the year

The format and presentation of the financial statements will conform to the applicable standards set forth by:

- ✓ Governmental Accounting Standards Board (GASB)
- ✓ American Institute of Certified Public Accountants (AICPA)
- ✓ Government Finance Officers Association (GFOA)
- ✓ U.S. Office of Management and Budget

### QUALITY CONTROL

In order to ensure that all our engagements meet our high quality standards, we have implemented a firm-wide system of quality control. The significant components of this system, as they relate to your audit, are as follows:

- All workpapers and audit programs are reviewed by the associates' immediate supervisors, and ultimately, the engagement principal.
- Draft financial statements and other reports are given a detailed review by an associate not connected with their preparation.
- Finally, the financial statements and other reports are reviewed for format, presentation, and compliance with all applicable professional guidance and technical pronouncements by the engagement principal and two top-level executives independent of the engagement team.

Through this quality control process, we are able to assure our clients that their financial reports have been subjected to the most stringent review of technical compliance and reporting excellence available.

## SCHEDULE

Our anticipated schedule of audit milestone dates is intended to comply with your filing date. An initial estimate of such dates is as follows:

Description	Date (s)
Detailed audit plan	December 31 annually
Fieldwork	April or May, at your request
Draft reports	May 31 each year
Final reports	June 30 each year

## HOURS BY LEVEL OF STAFF

	Partner	Manager	Senior/ Associate	Staff	Total
Audit planning	10	20	15	5	50
Primary fieldwork testing	10	40	175	0	225
Detailed review of draft financial statements and footnotes provided by the Finance Director and issuance of audit reports	5	5	35	10	55
Conclusion and issuance	5	15	25	0	45
Total estimated hours	<u>30</u>	<u>80</u>	<u>250</u>	<u>15</u>	<u>375</u>

### Sample size relevant to data quantity and the extent to which statistical sampling is to be used in the engagement

We anticipate the use of sampling during our audit of the County. The extent to which we use sampling will depend on the County's activity level and our professional judgment. Typically, we use sampling to test accounts with numerous, small balances when it is not practical or cost-efficient to examine 100 percent of the details of the account. There are two general approaches to audit sampling: non-statistical and statistical. Both approaches require that the auditor use professional judgment in planning, performing and evaluation of a sample. The typical sample size will range from 10 – 80 transactions based on the method used.

### Extent of use of EDP software in the engagement

We recognize that in order to provide maximum value to our clients, audit efficiency is of utmost importance. We have developed a proprietary system for preparing financial statements and workpapers to maximize the benefits of technology. In fact, the proposed concurring principal for your engagement, Stephen Blann, has held various roles within the Firm related to technology services, including Technology Champion, Governmental Accounting and Assurance Group; Member of the Information Technology Steering Committee and Technology Utilization Committee; and firm trainer. He is highly skilled in electronic data extraction and analysis, as well as custom application programming. In addition, Rehmann has established an Enterprise Risk Management ("ERM") division dedicated to internal controls and security in the EDP area.

We use technology every day to improve profitability, efficiency and the level of service provided to our clients. We continuously invest in technology, its implementation and employee training. Our clients benefit from the efficiencies gained in the audit process through the use of this technology.

### **Type and extent of analytical procedures to be used in the engagement**

Using the current and prior years' trial balances and the final amended budget, we will perform analytical procedures at the financial statement level. In general, we consider an income statement line item to be reasonable and consistent if it is within either 10 percent of the prior year actual or current year budget. Any financial statement line items with fluctuations outside of these parameters will be selected for additional procedures. We will review fluctuations at a greater level of detail (by general ledger account) and have discussions with management to identify and document the reasons for the change. At times, this process will identify errors or inconsistencies in the posting of transactions, or accruals that still need to be posted (or reversed from the prior year).

Based on our preliminary analytical review, certain income statement accounts may be selected for substantive testing because of their significance and/or ease of testing. Common substantive tests over income statement accounts are described in the detailed audit approach in the Appendix.

### **Approach to be taken to gain and document an understanding of the County's internal control structure**

A questionnaire will be provided that describes various typical control activities by transaction class (i.e., cash, accounts receivable, long-term debt, etc.). We will ask you to answer these questions and provide us with any additional information that may be helpful to us in understanding the internal control structure. Based on the responses to these questions, we will determine the 2-3 "key controls" over each transaction type.

### **Approach to be taken in determining laws and regulations that will be subject to audit test work**

We will obtain an understanding of the entity and its environment, including an understanding of its legal and regulatory framework, to determine which laws and regulations should be tested for compliance. This will be done through inquiries of management, review of changes to Michigan statutes, and rules of the Michigan Auditor General. Once we gain our understanding of the laws and regulations affecting the County, we will select sample transaction for compliance with those laws and regulations. Typical compliance areas include, but are not limited to, travel, budgeting, bond covenants, financial condition assessment, litigation, the State of Michigan Auditor General requirements and the annual financial report.

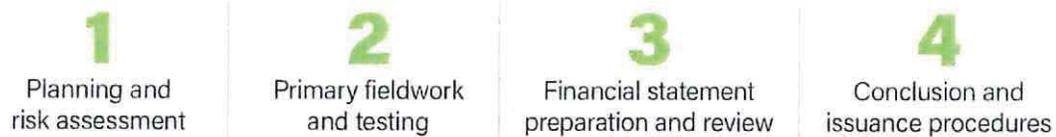
### **Approach to be taken in drawing audit samples for purposes of tests of compliance**

We generally draw samples of 40-60 in testing for compliance. Sample size will be dependent upon the compliance requirements and the number and type of transactions processed in each related grant. These samples will generally be of the nature of non-statistical sampling. Sample size for small populations is based on a statistical sampling calculation and can range from 20-30 percent of the transactions.

## APPROACH

We will complete our work in four inter-related phases: (1) planning and risk assessment, (2) primary fieldwork and testing, (3) financial statement preparation and review, and (4) conclusion and issuance procedures. A brief overview of our audit approach is provided below. **A detailed explanation of the audit process and Rehmann's approach is provided in the appendix.**

### Audit Process



#### Phase 1: planning/risk assessment

In accordance with your time schedule, we will hold a planning meeting prior to the start of the engagement involving all associates assigned to the job. We will schedule the dates of our on-site fieldwork, arrange for downloads from your computer systems, document internal controls over financial reporting and compliance, and review the materials you typically provide your auditors. At roughly the same time, we will work closely with you to begin preparing/updating the format and structure of the financial statements in Microsoft Excel.

Once the County is ready and has available a reasonably-adjusted trial balance, we will complete the planning process. Our engagement executives will analytically review the draft financial statements, and document our assessment of audit risk by area. We will use this information to tailor our standard governmental audit programs to correlate with our risk assessment of County's accounting and financial processing environment.

#### Phase 2: primary fieldwork/testing

Working from the reasonably-adjusted trial balance used to complete our planning procedures, we will begin our year-end fieldwork. Our lead schedules and audit workpapers will be created based on County's draft financial statements. This allows us to conduct our audit at the same level of detail on which our opinions will be expressed, and enhances the efficiency of the entire process. Each audit area will be tested through a combination of analytical, substantive, and sampling procedures, consistent with the tailored audit programs developed in Phase 1.

As the year-end fieldwork procedures are completed, we will review the workpapers, quality control documents, and checklists as part of our internal system of quality control. All comments and issues generated by these reviews will be resolved in the field.

#### Phase 3: financial statement preparation/review

Financial statement preparation actually begins in Phase 1, and continues throughout Phases 2 and 3. Once the financial statements and related notes have been compiled, they will be processed through our Technical Standards Review (TSR).

In most cases, the first level of this process is completed while we are still in the field, which allows for complete drafts (including any related audit findings and recommendations) to be reviewed with management before the audit team leaves the field, when information is still fresh and any issues are easily resolved.

#### Phase 4: conclusion/issuance procedures

After management has had an opportunity to thoroughly review the draft financial statements and any audit findings or recommendation, we will perform our conclusion and issuance procedures. These vary, but may include following up on outstanding confirmations, reviewing the minutes of board meetings held subsequent to our fieldwork, and obtaining written representations from management concerning the completeness and fair presentation of the financial statements. Once complete, we will produce final PDF versions of the financial statements and related reports, and provide them to you via email. Hard copy reports may also be printed and bound, depending on your needs.



“Our commitment to the governmental industry ensures that your reports will be completed timely, accurately and in accordance with professional standards.”

NATHAN BALDERMANN, CPA, CGFM  
Principal, Rehmann Governmental Industry Group

#### SIGNIFICANT EXECUTIVE INVOLVEMENT = TIMELY COMPLETION AND DELIVERY

At Rehmann, we believe that engagement executives belong in the field, not the office. Accordingly, you can expect a substantial on-site presence by the executives responsible for your engagement. We have found that when our most experienced people are investing a significant amount of time in the planning and implementation of an engagement, we are able to achieve optimum efficiency in conducting the audit. We also believe that frequent principal interaction with our clients strengthens our business relationship, gives us a deeper understanding of your needs, and fully leverages the knowledge and experience of our professionals.



#### MORE IDEAS

We're continually collaborating with clients and each other to help find new opportunities to increase efficiency, save money, streamline operations and enhance service value.

Our assurance practice is structured to provide our clients with efficient, effective services. We have one goal: becoming THE Firm of Choice for both our clients and our associates. To accomplish that goal, we employ a regional organizational structure, in-depth associate training, an emphasis on on-site review and completion of audit procedures, and an enhanced client service focus through our Rehmann Client Ambassador program.

## Potential audit problems

### ANTICIPATED PROBLEMS

Based on our understanding of current facts and circumstances, and our understanding of pending or potential changes in generally accepted accounting principles and auditing standards, there are no anticipated potential problems of which we are aware. However, if any unanticipated problems are encountered during the engagement, we will be proactive in bringing any such matters to your attention and finding a mutually acceptable solution. We also ask that you be honest and forthright in communicating any problems you have with us or any particular person at the earliest possible date. We care very deeply about our clients and their success, and so we will do whatever is reasonably necessary to rectify any problems.

### TECHNICAL ISSUE AND TECHNICAL DISAGREEMENT RESOLUTION

Rehmann has both informal and formal paths for resolving technical issues and disagreements that may impact a client. The client service executive, who leads each service team, is responsible for identifying the appropriate experience needed to provide effective service. When a technical issue or disagreement requires additional consultation, the principal has two courses of action.

First, our flexible, internal communication system enables principals to leverage the individual knowledge found throughout the Firm's offices. Through various mediums such as e-mail, our paperless document management system, and the Firm's intranet, professionals have easy access to subject matter experts with relevant industry or practice area experience.

Should an extreme technical matter arise that requires a more formal consultation or dispute resolution, the Firm has established executive committees. These executive committees provide direction on emerging assurance, audit and tax issues. The committees are flexible, allowing for immediate access, and the individuals who serve on these committees are considered the Firm's definitive experts. In fact, many committee members are recognized speakers or serve on related committees for state and national industry groups such as the American Institute of Certified Public Accountants and Michigan Association of Certified Public Accountants. In situations of dispute resolutions, any member of the engagement team who disagrees with the final resolution has the right to document their disagreement in the workpapers.

Our Firm practices personal and responsive communication with our clients. No one in our Firm will dictate "from afar" problem resolutions without our clients having an opportunity to meet and carry on a dialogue face to face.

# Report Format

Your financial statement format will remain consistent with that which you have received from Rehmann over the past four years. Please see the attached example financial statement format in the Appendix.

## Appendix

Peer review report  
Public sector client list  
Detailed audit approach  
Detailed single audit approach  
Sample audit report  
Appendix B from RFP  
Appendix C from RFP

# Peer review report

Page 1 of 2



CliftonLarsonAllen LLP  
CLAAconnect.com

## REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

To the Principals of Rehmann Robson LLC  
The National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Rehmann Robson LLC, a member of Rehmann, LLC (the Firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### Firm's Responsibility

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

### Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards* (including compliance audits under the Single Audit Act), audits of employee benefit plans, an audit performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and examinations of service organizations (SOC 1 and SOC 2 engagements).

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm in determining the nature and extent of our procedures.



Rehmann Robson LLC  
Page 2

**Opinion**

In our opinion, the system of quality control for the accounting and auditing practice of Rehmann Robson LLC applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Rehmann Robson LLC has received a peer review rating of *pass*.

*CliftonLarsonAllen LLP*

CliftonLarsonAllen LLP

Minneapolis, Minnesota  
September 15, 2017

# Public sector clients

Following is a list of Rehmann's public sector clients. Outsourcing clients are indicated with an asterisk (\*).

## COUNTIES

Bay County Building	Indian River County	Midland County
Berrien County	Isabella County	Monroe County
Calhoun County	Kalamazoo County	Muskegon County
Cheboygan County*	Kalkaska County	Newaygo County
Clinton County	Kent County	Otsego County
County of Jackson	Leelanau County	Shiawassee County
County of Saginaw	Lenawee County	Washtenaw County
Dow Event Center	Mecosta County	Wexford County
Eaton County		

## CITIES

City of Battle Creek	City of Howell	City of Pontiac
City of Benton Harbor	City of Inkster	City of Royal Oak
City of Charlevoix	City of Jackson	City of Sebastian, FL
City of Charlotte*	City of Lansing	City of St. John's
City of Escanaba	City of Mackinac Island*	City of Sturgis*
City of Flint	City of Milan	City of Tecumseh
City of Fremont Michigan	City of Novi	City of Three Rivers
City of Gaylord	City of Oak Park	City of Troy
City of Grand Blanc	City of Oregon, OH	City of Wyoming
City of Hastings	City of Perrysburg, OH	City of Ypsilanti*
City of Holland		

## VILLAGES AND TOWNSHIPS

Armada Township	Macon Township	Watertown Charter Township
Blair Township	Parma Township	Village of Augusta
Concord Township	Penn Township	Village of Blissfield
East Bay Township	Pittsfield Charter Township	Village of Brooklyn
Glen Arbor Township	Royal Oak Township	Village of Chesaning*
Green Lake Township*	Saginaw Charter Township	Village of Mackinaw City*
Holly Township	Superior Township*	Village of Port Austin
Little Traverse Township	Town of Orchid, FL	

## LIBRARIES

Capital Area District Library	Portage District Library	Spring Lake District Library
Chippewa River District Library	Shiawassee District Library	

Note: standalone library audit clients are listed. We audit additional libraries through various municipalities.

## TRIBAL GOVERNMENT

Bay Mills Indian Community  
Chippewa Ottawa Resource Auth.  
FireKeepers Casino\*  
Grand Traverse Band LLC

Little River Band of Ottawa Indians  
Little Traverse Bay Band of Odawa Indians  
Nottawaseppi Huron Band\*

## SCHOOL DISTRICTS

Adrian Public Schools  
Airport Community Schools  
Anchor Bay School District  
Ann Arbor Public Schools\*  
Bangor Township Schools  
Bedford Public Schools  
Benton Harbor Area Schools\*  
Big Jackson Public School  
Big Rapids Public Schools  
Black River Public School  
Chelsea School District  
Crestwood School District  
Dearborn Heights School District No. 7  
Detroit Public Schools\*  
Detroit Public Schools Community District\*  
Dexter Community Schools  
Dundee Community Schools  
East Jackson Community Schools  
Escanaba Public Schools  
Flint Community Schools\*  
Freeland Schools  
Fruitport Community Schools  
Gibraltar School District  
Grand Haven Area Public Schools  
Grass Lake Community Schools  
Harper Creek Community Schools  
Harper Woods School District  
Hesperia Community Schools  
Hope Academy of West Michigan  
Houghton Lake Community Schools  
Huron School District  
Ida Public Schools

Ionia Public Schools  
Jackson County ISD  
Knapp Charter Academy  
Lakeview Community Schools  
Lighthouse Academy  
Lincoln Consolidated Schools\*  
Linden Community Schools  
Mackinac Island School  
Marshall Public Schools  
Marquette Area Public Schools  
Milan Area Schools  
Mona Shores Public Schools  
Monroe County ISD  
Mount Clemens Community Schools  
Napoleon School District  
Northwest School District  
Pennfield Schools  
Pinckney Community Schools  
Plainwell Community Schools  
Portage Public Schools  
Public Schools Of Petoskey  
Sault Ste Marie Area Public Schools  
Springport Public Schools  
Summerfield Schools  
Trillium Academy  
Vandercook Lake Public Schools  
Vanguard Charter Academy  
Vassar Public Schools\*  
W-A-Y Academy  
Western School District  
Ypsilanti Community Schools

## COLLEGES & UNIVERSITIES

Baker College  
Bay College  
Bay Mills Community College  
Cleary University  
Glen Oaks Community College  
Jackson College  
Kirtland Community College  
Lake Michigan College

Lansing Community College  
Macomb Community College  
Montcalm Community College  
North Central Michigan College  
St. Clair County Community College  
Washtenaw Community College  
West Shore Community College

## ROAD COMMISSIONS

Branch County Road Commission  
Cass County Road Commission  
Hillsdale County Road Commission

Missaukee County Road Commission  
St. Joseph County Road Commission

## TRANSIT

Bay Area Transportation Authority  
Otsego County Bus System

Toledo Area Regional Transit Authority  
Van Buren Public Transit

Note: standalone transit audit clients are listed. We audit additional transit authorities through various municipalities.

## MEDICAL CARE FACILITIES

Bay County Medical Care Facility  
Lenawee Medical Care Facility

Tuscola County Medical Care Facility\*

## COMMUNITY MENTAL HEALTH (CMH)

Detroit Wayne Mental Health Authority\*  
Genesee Health System\*  
Lifeways\*  
Muskegon County CMH\*  
Network 180\*  
Northern Michigan Regional Entity\*  
Oakland Community Health Network

Region 10\*  
Saginaw County CMH\*  
Sanilac Mental Health Authority  
St. Clair County CMH\*  
Summit Pointe\*  
West Michigan CMH\*

## CMH AFFILIATED PROVIDERS

American Neuropsychiatric Association  
Domus Vita, Inc.  
Enhance, Inc.  
New Outlook, Inc.  
New Life Services Inc.

Oakland Community Alternatives  
Rgrps, Inc.  
Pappalardo Alternative Placements  
Residential Alternatives, Inc.

## HOUSING PROJECTS

Avery Square Senior Housing  
Grand Rapids Housing Commission

Trinity Continuing Care  
Wickes Park Homes LDHA, LP

## OTHER

Bay Area Narcotics Enforcement Team  
City of Grand Rapids Pension Systems  
Cloverland Electric Coop  
Downtown Development Authority (Jackson)  
Grand Rapids-Kent County Convention/Arena  
Auth.  
Grand Traverse Metro Emergency Services  
Authority  
Great Lakes Commission  
Great Lakes Water Authority  
Harbor-Petoskey Area Airport Authority  
Health Department of Northwest Michigan\*  
Jackson Narcotics Enforcement Team (JNET)  
Kent County Dispatch Authority  
Lansing Economic Development Corporation  
Lansing Entertainment and Public

## LAWNET

Lucas Co Board of Dev'l Disabilities  
Lucas County Land Reutilization Corp  
Mackinac Island Department of Public Works\*  
MBS International Airport  
Michigan Department of Treasury\*  
Monroe County Agency  
Resources Global Professionals  
Saginaw County 9-1-1 Authority  
Tri-County Office on Aging  
Western Wayne Criminal Investigations  
Wolverine Power Supply Coop  
Ypsilanti Community Utilities Authority

# Public sector clients (not-for-profits)

Following is a list of Rehmann's not-for-profit clients. Outsourcing clients are indicated with an asterisk (\*).

## PRIVATE AND COMMUNITY FOUNDATIONS

5 Healthy Towns Foundation	Indian River Community Foundation
Battle Creek Community Foundation	Jackson College Foundation
Bay Area Community Foundation	Kirtland Community College Foundation
Camp Leelanau & Kohahna Foundation	Lansing Community College Foundation
Chadtough Foundation	Lingap Children's Foundation
Cheboygan Communities Foundation	Macomb Community College Foundation
Cherryland Electric Community Caring Fund	Metro Health Hospital Foundation
CLA Foundation	Public Broadcasting Foundation of Northwest Ohio
Comerica Charitable Trust	Rotary Club of Lansing Foundation
Community Foundation for Muskegon County	SpartanNash Foundation
Dana Foundation	Stranahan Foundation
Detroit Regional Chamber Foundation	Toledo Community Foundation
Fremont Area Community Foundation	Towsley Foundation
Grand Rapids Public Museum Foundation	Washtenaw Community College Foundation
Highscope Educational Research Foundation	West Shore Community College Foundation

## PRIVATE SCHOOLS

Ave Maria School of Law	Saint Edward's School, Inc.
Blue Lake Fine Arts Camp	St. John's Jesuit High School
Emerson School	St. Ursula Academy
Ox-Bow School of Art	The Leelanau School
	The Roeper School

## RELIGIOUS ORGANIZATIONS

Ada Bible Church	Dominican SMME Corporation
Adventist Frontier Missions, Inc.	Main Street United Brethren Church
Central Wesleyan Church of Holland	West Michigan District of the Wesleyan Church
Diocese of Saginaw	Zion Christian Church

## COUNCILS & AGENCIES ON AGING

Child Care Network/Washtenaw Regional 4C	Region 2 Area Agency on Aging
Midland County Council on Aging	Region 3B Area Agency on Aging
NW Senior Resources, Inc.	Tri-County Office on Aging

## CONDOMINIUM ASSOCIATIONS

Le Rivage Association, Inc.	Reflections on the River Association
The Reef Ocean Resort Association	Riverwood Community Association

## COMMUNITY ACTION AGENCIES

Community Action Agency - Chippewa-Luce-Mackinac  
Community Action Agency - Serving Jackson, Lenawee & Hillsdale Counties  
Community Action - Serving Barry, Branch, Calhoun & St. Joseph Counties  
EightCAP Inc./CAMWC  
FOCUS - Toledo

## ASSOCIATIONS

Ann Arbor Amateur Hockey Association  
Council of Michigan Foundations  
Festival of the Arts in Grand Rapids  
Michigan Infrastructure & Trans. Association  
Saginaw Township Soccer Association  
Toledo Orchestra Association  
The Community House Association and Foundation  
University of Toledo Alumni Association

## HEALTH PLANS & HEALTH CENTERS

Alcona Health Center  
Dental Center of Northwest Ohio  
Dental Clinics North  
Genesee Health Plan  
Hope Medical Clinic  
Jackson Health Plan Corporation  
Toledo Community Oncology Program  
Washtenaw Community Health Organization

## HEALTH & WELFARE ORGANIZATIONS

Addiction Treatment Services  
Boy Scouts of America – Erie Shore  
Boys & Girls Clubs of Toledo  
Catholic Social Services of Washtenaw County  
The Cocoon Shelter  
Crossroads of Michigan  
Girl Scouts of Michigan Shore to Shore  
Goodwill Industries of Greater Grand Rapids  
Goodwill of West Michigan  
Holy Cross Youth and Family Services  
Holy Cross Children's Services  
Jackson Interfaith Shelter  
Leader Dogs for the Blind, Inc.  
Lifeways  
Samaritan Center, Inc.  
SOS Community Services  
United Way of Greater Toledo  
United Way of Indian River County, Inc.  
United Way of the Lakeshore  
United Way of Washtenaw County  
Washtenaw Health Plan  
Women's Resource Center of the GT Area

## OTHER

Admiralty Yacht Club Association  
Altarum Institute  
Ann Arbor YMCA  
Arbor Research Collaborative for Health  
Baruch SLS, Inc.  
Cancer Alliance of Naples  
Career Alliance Inc.  
Cereal City Development Corporation  
CIFT  
Clean Energy Coalition  
Community Healthcare Connections  
Detroit Science Center  
Everest Inc.  
Foreign Links Around the Globe (FLAG)\*  
Grace Place for Children and Families  
Grand Rapids Public Museum  
Grand Traverse Industries  
Greater Lansing Convention & Visitors Bureau  
Ide I  
Ide II  
Imagination Station  
Internet2  
JC Dormitories, Inc.  
Jewish Federation of Greater Toledo  
Jewish Senior Services  
John Ball Zoo  
Junior Achievement of NWO, Inc.  
Klingelberg America Inc.  
Lansing Economic Area Partnership  
Leisure Living Management of Fremont  
Lott Industries  
Lucas Co. Board of Developmental Disabilities  
Mackinac Island Convention & Visitors Bureau  
Main Street Business Improvement Zone  
McKee Botanical Garden, Inc.  
Mercy Education Project  
Michigan Child Care Centers  
Michigan Christian Home  
Michigan Credit Union League  
Michigan Human Resource Development  
Mid-Michigan Child Care Centers  
MOKA Corporation  
Northwest Ohio Scholarship Fund  
Odawa Economic Development Management  
Palmas Del Sol Condo Association Inc.  
Pelham Manor  
Red Stick Golf Club, Inc.  
Ronald McDonald House Charities of Ann Arbor  
Ronald McDonald House of Western Michigan  
Rotary Club of Lansing  
Samaritan Homes  
Scholastic Shooting Sports Foundation, Inc.  
SMB Probation Center  
SMRC LDHALP  
Society for College and University Planning  
Southwest Michigan Community Development  
SVRC Industries, Inc.  
Sweet Dreamzzz, Inc.  
The Historical Society of Michigan  
Toledo Zoological Society  
Tri-Cities Historical Museum  
Underground Railroad  
Unison Behavioral Health Group  
West Side Montessori Center  
White Lake Area Chamber of Commerce  
Wings of Mercy, Inc.

## Detailed audit approach

Each audit engagement is unique and requires different procedures to meet specific circumstances. However, the following broad approach is followed for most of our audits. While certain steps may occur in different order than presented below, a typical County audit would consist of the following audit procedures:

### Phase 1: planning/risk assessment

Pre-engagement – Certain audit procedures and inquiries are completed prior to the commencement of audit fieldwork. This ensures that we have a complete understanding of the entity, agreement on the extent of procedures to be performed, and an anticipated timeline for completion.

Procedure	Description
Planning meeting	<p>All members of the audit team will meet with the key contacts at the government. All parties will set dates for the milestones of the audit:</p> <ul style="list-style-type: none"> <li>• Preliminary fieldwork (if requested)</li> <li>• Availability of reasonably adjusted trial balance</li> <li>• Primary fieldwork</li> <li>• Interim audit status meetings (for larger engagements)</li> <li>• Draft reports/exit conference</li> <li>• Final reports</li> <li>• Presentation to board(s)/committee(s), as requested</li> </ul> <p>By agreeing to these dates up front, we are able to schedule the right people to have availability at the right time. During this meeting, both the County and the auditors will clarify expectations:</p> <ul style="list-style-type: none"> <li>• Requested downloads</li> <li>• Client-provided workpapers (content, format, timing, etc.)</li> <li>• Communication methods (phone vs. e-mail, etc.) and direction (all requests through the primary contact vs. inquiring directly of the employee responsible)</li> </ul>
Draft preliminary financial statements	<p>Using the prior year trial balance and issued financial statements, the audit in-charge will gain an understanding of account groupings for financial statement presentation. This will simplify the process of compiling the financial statements by only requiring newly created general ledger accounts to be grouped. It will also ensure that the audited financial statements are being prepared consistently. We refer to this as “coding the trial balance” which will then link directly to the financial statements, management’s discussion and analysis tables, and leadsheets. If</p>

	journal entries need to be posted after the auditors have received the trial balance, they can be posted in our Excel file and will flow through automatically to the related files.
Engagement letter	The engagement letter will serve as the contract between the auditors and the County and will be sent each year. This letter contains information on the scope of the audit and the related fees. We ask that the County return a signed copy of the letter to us prior to the commencement of primary audit fieldwork.
Discussion with audit committee	Each year before the start of the audit, one of the audit executives assigned to your engagement will conduct a short meeting or phone call with the chair of your audit committee (or its equivalent in your entity). We will discuss timing and the planned scope of the audit. Your audit committee chair will be given the opportunity to provide us with any additional information he/she deems relevant and ask any questions about the audit process.
Communication with prior auditors	Auditing standards require that we make certain inquiries of your predecessor auditors. We will provide management with the template of a letter that the County will send to the predecessor audit firm authorizing them to answer our questions and allow us access to their prior year workpapers. We have the County send a copy of this letter to us so we know when to initiate communication. In addition to make standard inquiries as required by Statement on Auditing Standards No. 84: <i>Communications Between Predecessor and Successor Auditors</i> , we may also visit the prior auditors' offices to review their workpapers. If we can determine that the appropriate standards were followed in performing that audit, we may not consider it necessary to test opening balances.
Communication with other auditors	If the County has any funds or component units audited by other CPA firms, we need to make certain inquiries of these firms regarding their understanding of our reliance on their separately-issued report(s) and the auditing standards they plan to follow. This process requires minimal assistance from the County and is deemed to remain in effect unless the audit firm changes.

## Phase 2: primary fieldwork/testing

**Planning/Risk Assessment** – In order to design our auditing procedures according to your unique operating environment, we will use various methods to gain an understanding of processes and internal controls. We will use the results of these inquiries and tests to assess risks and to further tailor our governmental audit programs. This process is more extensive in the first year as a base understanding is gained by the audit team, and may require a specially scheduled visit of 1-2 days. In

future years, the process will consist primarily of updating our understanding for any procedural or personnel changes that may have occurred. Our standard planning/risk assessment procedures might include these tests:

Procedure	Description
Document financial systems	We will obtain any existing accounting policies and/or procedures manuals to gain an understanding of the operating environment. If no such materials are available, we have a form of basic questions that will guide you through the process of documenting your actual practices.
Review control activities	<p>A yes/no questionnaire will be provided that describes various typical control activities by transaction class (i.e., cash, accounts receivable, long-term debt, etc.). We will ask you to answer these questions and provide us with any additional information that may be helpful to us in understanding the internal control structure.</p> <p>Based on the responses to these questions, we will determine the 2-3 “key controls” over each transaction type.</p>
Walkthroughs	Once we have an understanding of internal controls and have identified the key controls, we will select a small sample of actual transactions and “walk through” each of the key controls to determine if the controls have been implemented and documented appropriately. The typical areas for which walkthroughs are performed are: cash disbursements, cash receipts, payroll, and general journal entries, though other areas may also be tested at this time.
Establish materiality and major funds	Using the reasonably adjusted trial balance and draft financial statements, the audit team will test the appropriateness of major funds. Materiality will then be calculated by opinion unit. Our substantive tests generally require the audit team to test all individually significant items and, depending on the remaining untested balance, may require sampling the remaining population.
Review of board minutes	In addition to discussing major activities in the year under audit with management (such as issuance of long-term debt, large capital-related purchases, new programs or services, etc.), we will review minutes from meetings of the Board and any committees. This will allow us to identify significant or unusual events or purchases and revise our planning audit procedures accordingly.

Analytical review	<p>Using the current and prior years' trial balances and the final amended budget, we will perform analytical procedures at the financial statement level. In general, we consider an income statement line item to be reasonable and consistent if it is within either 10 percent of the prior year actual or current year budget. Any financial statement line items with fluctuations outside of these parameters will be selected for additional procedures. We will review fluctuations at a greater level of detail (by general ledger account) and have discussions with management to identify and document the reasons for the change. At times, this process will identify errors or inconsistencies in posting of transactions, or accruals that still need to be posted (or reversed from the prior year).</p> <p>Based on our preliminary analytical review, certain income statement accounts may be selected for substantive testing because of their significance and/or ease of testing. Common substantive tests over income statement accounts are described later in this appendix.</p>
Risk assessment and brainstorming	<p>At various times through the year, Rehmann's governmental audit group will meet to discuss risks that are common to Michigan governments. The audit team will review the notes from these meetings at the beginning of the County's audit to determine which of these risk factors might be applicable. The team will then use the information provided in the previous steps to identify additional risks and design audit procedures to address such risks. Our government-specific audit programs will be tailored to reflect the planned audit procedures.</p>
Consideration of fraud	<p>In accordance with Statement on Auditing Standards No. 99: <i>Consideration of Fraud in a Financial Statement Audit</i>, we will make certain inquiries of personnel in various departments and positions to obtain their views about the risks of fraud and how they are addressed. These inquiries are made in the form of written questionnaires which are provided to selected individuals with a postage-paid return envelope and mailed directly to us when completed.</p> <p>In addition, each year the audit team will conduct 2-4 "surprise" procedures that are outside the scope of the typical audit. The use of these unpredictability tests is a requirement of SAS 99. These tests are generally relatively simple and address various internal control, financial statement presentation, and compliance issues.</p>

Review of attorney invoices	We will discuss any pending or anticipated litigation with upper management and review invoices for attorney services. If items are identified that may require accrual and/or disclosure in the financial statements, we may request written responses to certain inquiries from your attorneys. A pre-drafted letter to send to the attorney will be provided to management for preparation of inquiries, if deemed necessary.
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Substantive Audit Procedures – In general, our approach to this audit will be “balance sheet oriented”. This means that we will first focus our attention on testing the ending balances of the assets and liabilities of each opinion unit. This approach has two distinct advantages: (1) it places greater emphasis on identifying potential misstatements in accounts that could have a carry-over effect on later periods (unlike income statement accounts that reset each year), and (2) it can reduce risk of material misstatement over the aggregate income statement accounts to a level where a primarily analytical approach can be applied with an acceptable detection risk for potential misstatements. This results in a very efficient audit process, and allows us to provide a high level of assurance in fewer hours. Of course, certain income statement accounts may still be tested substantively because of their ease of testing and/or significance.

Our auditors approach substantive balance sheet testing at the financial statement level (following our opinion) and not by individual trial balance accounts. Leadsheets are generated directly from the trial balance using grouping codes, and accounts are divided and subtotaled by opinion unit in order to easily determine whether appropriate testing has been completed. Each leadsheet contains both current and prior year balances to allow the auditors to quickly identify trends and expectations and document any significant fluctuations. Balance sheet accounts that have remained unchanged will be brought to the attention of management for inquiry and follow up.

Initially, all individually significant or unusual items are selected for testing and the percent of coverage by opinion unit is calculated and evaluated for adequacy to support our opinion. If, based on our risk assessment, we consider it necessary to obtain additional audit coverage, the remaining untested balance is stratified and sampled following professional standards. With each test performed, the auditors include sufficient documentation to both comply with professional standards and to allow the audit executives to understand the procedures performed and related conclusions reached during their review process.

Our entire audit process is facilitated electronically, using a paperless system. Accordingly, to the extent possible, we request that supporting schedules and documentation be provided to us in their native electronic format. The audit team will also come prepared with a high-speed scanner which will allow them to scan any hardcopy documents provided into the electronic audit file. The audit team will generally not require paper photocopies of supporting documents (unless the County is more comfortable providing photocopies). After testing is completed and any important items have been scanned into the file, the originals will be returned in-tact.

There are many advantages to a paperless system, or electronic audit file. As mentioned previously, the auditors will not require photocopies be made of supporting documentation. Workpapers and leadsheets can be updated and edited in the field without reprinting, and the auditors will have ready access to the prior year audit files in their entirety and can show you examples of what they are

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requesting. Throughout the year, if you contact the audit team with a question, they will have easy access to the audit files, regardless of whether they are in the office, at home, or at another client site.

While not all inclusive, the following listing summarizes many of the standard substantive audit procedures that may be performed, along with the requested documentation:

Audit Area	Substantive Test
Cash and investments	<ul style="list-style-type: none"> <li>• Send bank confirmation forms (completed by management) to respective financial institutions, compare confirmed balances to bank statements, and investigate discrepancies.</li> <li>• Consider allowability of investments in accordance with State statute and the government's investment policy.</li> <li>• Agree book balances to a trial balance account (or group of accounts for pooled cash systems).</li> <li>• Test bank reconciliations by tracing deposits in transit and outstanding checks to the subsequent period statement. Trace inter-bank transfers in transit between account reconciliations. Identify outdated or unusual reconciling items.</li> <li>• Consider the appropriateness of accrued interest on certificates of deposit and investments.</li> <li>• Calculate Federal Depository Insurance Coverage (FDIC).</li> <li>• Prepare financial statement disclosures such as those concerning interest rate risk, credit risk, and concentration of credit risk.</li> </ul>
Receivables	<ul style="list-style-type: none"> <li>• Obtain subledgers for significant account balances. Select items for detail testing and obtain subsequent receipt noting whether the amount was earned prior to year end and received in the next period.</li> <li>• Consider whether any receivables in governmental funds are collected outside of the period of availability (as it is defined by the government) and should be deferred in the fund financial statements.</li> <li>• Send confirmations for utilities receivable, pledges receivable, etc.</li> <li>• Trace grant receivables to financial status reports, subsequent receipts, and/or determine whether the recorded receivable is equal to grant expenditures, less actual cash receipts.</li> <li>• Trace special assessments receivable to signed special assessment rolls. Perform a rollforward of special assessments by taking the prior year receivable, subtracting special assessment revenue from the trial balance or financial statements, adding new assessments levied, and comparing the result to the amount of the current receivable.</li> </ul>
Inventory	<ul style="list-style-type: none"> <li>• Compare detailed listings of items, individual cost, and extended cost to the general ledger control accounts.</li> <li>• If deemed necessary, perform a physical observation of the inventory count at year-end. Select a sample of items from the inventory listing, locate and count the items, and compare to the recorded balance. Also select a sample of</li> </ul>

	<p>items directly from the floor, count, and compare to the actual amount recorded in the subledger.</p> <ul style="list-style-type: none"> <li>• Inquire about obsolete inventory.</li> </ul>
Prepays	<ul style="list-style-type: none"> <li>• Determine the nature of prepaid items in each general ledger account.</li> <li>• Recalculate prepaid balance using invoices and check vouchers and determine whether the amount was paid prior to year-end.</li> </ul>
Capital assets	<ul style="list-style-type: none"> <li>• Obtain rollforwards of capital asset activity. Agree beginning balances to prior year audited amounts and ending balances to general ledger control accounts.</li> <li>• Obtain a detailed listing of additions and agree to the rollforward. Test individually significant items by tracing to approved invoices.</li> <li>• Compare capital outlay expenditures to capital asset additions for reasonableness. If considered necessary, perform a search for unrecorded capital assets to audit completeness.</li> <li>• Agree approved capital items from board minutes to additions listing.</li> <li>• Obtain a detailed listing of disposals and agree to the rollforward. Determine whether any proceeds on the sale of such assets has been reported appropriately in the financial statements.</li> <li>• Obtain depreciation schedules and test the accuracy of calculation based on the selected depreciation method and useful life.</li> <li>• Test the accounting for and disclosure of amounts acquired through capital leases or installment purchase agreements.</li> <li>• Test the allocation of depreciation expense by function.</li> <li>• Inquire about timing of physical inventory observations, the existence of idle assets, and whether remaining useful lives are still appropriate.</li> <li>• Inquire about the existence of intangible assets such as usage or access rights.</li> <li>• Consider whether amounts remain on construction contracts related to construction in progress for disclosure in the notes to the financial statements.</li> </ul>
Payables	<ul style="list-style-type: none"> <li>• Obtain a detailed listing of the composition of general ledger control accounts and compare to year-end account balances.</li> <li>• Perform a completeness test by selecting certain subsequent disbursements, reviewing the invoice for information on the accounting period involved, and determining whether the amount is properly included or excluded from year-end accounts payable.</li> </ul>

	<ul style="list-style-type: none"> <li>• Trace fiduciary liabilities to subsequent disbursements or detailed subledgers of amounts held by individual/entity.</li> <li>• Determine whether any amounts are being held in agency funds that represent funds of the primary government which should be accounted for in the respective funds.</li> </ul>
Accrued liabilities	<ul style="list-style-type: none"> <li>• Recalculate accrued salaries and wages payable by gaining an understanding of the timing of service periods and pay dates, obtaining support for the first pay date in the subsequent period, determining the number of service days covered by the pay run and the number of service days during the period under audit, recalculating the accrual.</li> <li>• Recalculate the accrual for the employer's share of FICA taxes payable based on known rate of 7.65%.</li> <li>• Consider the reasonableness of other fringe benefit accruals such as health insurance, retirement, and workers' compensation.</li> <li>• For self-insurance programs, obtain calculations or third-party reports estimating incurred-but-not-report claims. Rollforward self-insurance claims payable for disclosure in the footnotes.</li> </ul>
Long-term debt	<ul style="list-style-type: none"> <li>• Obtain a rollforward of long-term debt activity. Compare the beginning balances to the prior year audit.</li> <li>• Obtain amortization schedules for bonds and notes payable. Consider whether any debt covenants exist and test accordingly.</li> <li>• Trace principal payments to the debt rollforward and the amortization schedules.</li> <li>• Agree the current portion of long-term debt and future minimum payments of principal and interest to the amortization schedules.</li> <li>• Determine whether new debt was approved by the governing body and issued in accordance with State statute.</li> <li>• Determine whether there were premiums and/or discounts associated with the issuance of the debt by obtaining the sources and uses statement. Consider whether any bond issuance costs should be capitalized and amortized over the life of the bonds. Recalculate such balances.</li> <li>• Recalculate accrued interest payable based on the first interest payable of the subsequent period, the length of time covered by this interest payment, and the length of time within the year under audit.</li> </ul>
Compensated absences	<ul style="list-style-type: none"> <li>• Obtain a detailed listing of compensated absences (accrued sick and vacation time) by employee and agree to general ledger control accounts.</li> </ul>

	<ul style="list-style-type: none"> <li>• Obtain an understanding of compensated absences policies, such as vesting, payment rates, and maximum payouts.</li> <li>• Select a sample of individuals for testing. Trace accrued hours to source files and pay rates to personnel files or union/bargaining unit contracts. Recalculate accrual and determine whether hours are within the maximum amount.</li> <li>• Determine whether FICA taxes are being accrued on the year-end balance.</li> <li>• Rollforward compensated absences liability by obtaining either the accrual for amounts earned or the amounts used/paid for disclosure in the notes to the financial statements.</li> <li>• Consider the appropriateness of the expense allocation for the change in compensated absences of governmental activities.</li> <li>• Inquire about an estimated current portion and consider whether this is being presented appropriately in the financial statements. Compare current portion to actual uses/payments for reasonableness.</li> <li>• Inquire about the existence of any severance agreements or termination benefits. Obtain supporting documentation and test accordingly.</li> </ul>
Equity	<ul style="list-style-type: none"> <li>• Compare beginning equity by fund to the prior year audit, and investigate any differences.</li> <li>• Review fund balance classifications based on the nature of the funds and board resolutions/policies (if applicable).</li> <li>• Review net asset classifications for accuracy. Recalculate net assets invested in capital assets net of related debt.</li> </ul>

These substantive procedures will be completed primarily by our staff and senior auditors. Each workpaper will be reviewed by the engagement manager (and where appropriate, the engagement principal) during fieldwork so questions can be resolved while the team is still on-site.

### Phase 3: financial statement preparation/review

Financial Statement Preparation - Another key element of the fieldwork process is the preparation of draft financial statements (including footnotes), the management letter, and other applicable reports/correspondence. As mentioned briefly in the beginning of this appendix, Rehmann uses a unique system for preparing the financial statements. The following are the primary steps in the preparation of the financial statements:

Procedure	Description
Downloads	<ul style="list-style-type: none"> <li>• Obtain a download directly from the client's financial accounting system which includes: complete account number, account name, and account balance. For income statement accounts, the original and amended budgets will be downloaded as well.</li> </ul>

	<ul style="list-style-type: none"> <li>• Extract the system download into a usable Excel file using Monarch or other data extraction software.</li> <li>• Assign fund and government-wide financial statement captions to each account based on the level of detail in the financial statements. This effectively maps each account on the government's chart accounts to the appropriate sections of the financial statements.</li> <li>• This process is most intensive in the first year of the audit, which is why we request a prior year trial balance before we arrive on-site. That way, we can have the initial set-up completed before the audit begins.</li> </ul>
Linking	<ul style="list-style-type: none"> <li>• Use Excel PivotTables to summarize the data in the trial balance based on the assigned captions.</li> <li>• Use Excel's "VLookup" and "Match" functions to link the PivotTables to the actual financial statements.</li> <li>• The advantage of this system is that any account coding changes or journal entries discovered through the audit process can be posted to the auditors' version of the trial balance and with the click of a button the PivotTables are refreshed and the financial statements are automatically updated.</li> <li>• Tables for the Management's Discussion and Analysis are linked to the financial statements.</li> </ul>
Footnotes	<ul style="list-style-type: none"> <li>• Draft notes to financial statements using a current disclosure checklist to ensure completeness.</li> <li>• Obtain supporting documentation for disclosures not directly linked to the trial balance or financial statements, such as: retirement and other postemployment benefit plan funding progress and funded status, related party transactions, subsequent events, etc.</li> </ul>
SAS 114 letter	<ul style="list-style-type: none"> <li>• Through the audit process, the engagement team will keep a list of potential audit issues and/or internal control or efficiency recommendations.</li> <li>• Near completion of fieldwork, the potential items are reviewed and discussed amongst the audit team.</li> <li>• The method of communication for items deemed to be control and/or compliance deficiencies is determined and a SAS 114 letter (informally known as the "management letter") is drafted.</li> </ul>
Other reports	<ul style="list-style-type: none"> <li>• If the government is subject to a single audit in accordance with the Uniform Guidance (by expending at least \$750,000 in Federal awards in any given fiscal year), the reports on Single Audit Act compliance will be prepared.</li> </ul>

Detail check	<ul style="list-style-type: none"> <li>• After the financial statements and notes are drafted and a disclosure checklist has been completed, the entire report is reviewed by another individual. Controls totals are compared between statements and schedules, numbers are footed and cross-footed, footnotes are agreed to the underlying financial statement amounts (when applicable), and overall presentation is reviewed for proper formatting, spelling, and grammar.</li> <li>• The audit opinion (and Yellow Book report and/or single audit report, as applicable) are compared to current professional standards for completeness and accuracy.</li> <li>• Any management letter comments are reviewed for clarity and appropriateness.</li> <li>• The preparer of these documents is then provided feedback from the independent review and follows up on questions/comments accordingly.</li> </ul>
Technical standards review	<ul style="list-style-type: none"> <li>• Generally on the final day of audit fieldwork, the engagement principal comes on-site to review the audit team's workpapers and perform a technical standards review of the financial statements and management letter.</li> <li>• Additional technical standards reviews are conducted after fieldwork by a principal not associated with the engagement (i.e., a "cold review" of the statements).</li> </ul>
Exit conference	<ul style="list-style-type: none"> <li>• While the auditors are still on-site, the draft financial statements and management letter are provided to and reviewed with management during an exit conference.</li> <li>• Audit findings or recommendations are explained in detail, and an open dialog is held to ensure that the facts and circumstances are properly understood by all parties.</li> <li>• A working draft of the management's discussion and analysis (with information related to the audited financial statement completed already) is provided.</li> <li>• Any open items are summarized in written format and reviewed with the client.</li> <li>• The timeline for engagement completion and issuance (initially agreed-upon as part of the planning meeting) is reviewed for reasonableness, and updated as needed.</li> </ul>

At this point in the process, the auditors will pack up their equipment and leave the field. Management is then given as much time as requested to review the draft reports, provide feedback, and ask questions. Once management has proposed any necessary corrections and the management's discussion and analysis is completed, the entire financial reporting package is submitted to a second technical standards review. This review is always done by an audit executive in a different office with no continuing involvement in the audit process.

Any questions or issues that arise through the technical standards review are discussed between the audit team and management. If changes have been made to the initial drafts, management is provided with a final draft for its review and approval. We then provide management with a draft representation letter. This is a document that puts into writing the assertions made by management to the auditors throughout the audit process. We ask that this letter be printed on the government's letterhead and signed by two individuals (generally the equivalents of the CEO and CFO). We consider the signed representation letter to be management's assertion that drafts have been reviewed and our authorization for processing of final reports.

#### **Phase 4: conclusion/issuance procedures**

Rehmann's professional support staff will coordinate the printing and binding of final reports and will upload the required PDF to the State of Michigan. The printed copies will be mailed or delivered. Management will be provided with a final PDF of all reports produced in the audit. The government is free to use this document for distribution to grantor agencies and related parties, upload to the government's website, or to produce additional printed copies.

The audit process concludes with presentation to the governing body (or one of its committees), as requested. One of the executives assigned to the audit team will report on the result of the audit in whatever level of detail is requested. A typical presentation lasts 10-15 minutes, but can be as short as 5 minutes or as long as one hour, depending on your preferences.

While this concludes the formal process of the annual audit, your engagement team will be available for questions throughout the year. We will provide management with information on relevant upcoming changes in accounting standards and opportunities to participate in training events or webinars. We will also check in at times throughout the year to say hello and provide an opportunity for management to ask any questions or provide updates on the government's operations.

We are confident that our audit process maximizes efficiency while still providing the highest level of audit assurance. Our governmental auditing team has a deep understanding of accounting and financial reporting as it relates to local units of government. But our auditors also understand that you are busy and have priorities and responsibilities in addition to the annual audit. Your audit team will make as many requests ahead of time as possible, coordinate information requests and questions, and strive to keep the audit process as quick as possible.

## Detailed single audit approach

Your single audit will be conducted in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Each audit engagement is unique and requires different procedures to meet the specific circumstances. However, the following broad approach is followed for most of our single audits. These procedures are generally performed concurrently with the financial statement audit and the reports are issued on the same date. However, this work can be performed at a separate time if requested by management. The following procedures describe our general approach in performing a single audit.

### Testing of schedule of expenditures of federal awards and understanding internal controls over federal awards

Our first step in performing a single audit is obtaining a complete schedule of expenditures of federal awards (SEFA) from management. While the auditors may assist in the compiling and formatting the SEFA, the responsibility of identifying federal awards and providing information on the Catalog of Federal Domestic Assistance (CFDA) number, grant/pass-through award number, pass-through agency, and current year expenditures is the responsibility of management. We will request that a complete SEFA be provided before commencement of the single audit procedures. The following are the primary steps in testing the SEFA and obtaining and understanding the related procedures and internal controls:

Procedure	Description
Agree to general ledger	<ul style="list-style-type: none"><li>• Obtain an understanding of the chart of accounts used to track federal revenue and expenditures and which identifying numbers correspond to each grant award.</li><li>• Agree federal revenue (by grant and in total) to the SEFA</li><li>• Agree federal expenditures to the SEFA</li><li>• Inquire of the existence of non-cash awards that may recorded as a government-wide adjustment only</li></ul>
Agree to source documents	<ul style="list-style-type: none"><li>• Obtain source documents to substantiate amounts/disclosures in the SEFA, such as grant award agreements, financial status reports, award close-out reports, etc.</li></ul>
Obtain understanding of internal controls	<ul style="list-style-type: none"><li>• Review with management the overall controls over compliance with each of the applicable compliance requirements of the OMB Compliance Supplement</li><li>• Inquire of any program audits or grantor agency monitoring during the year and results of those visits</li><li>• Review prior year audits for instances of control deficiencies or noncompliance related to federal awards.</li></ul>

### Determine major programs and perform controls/compliance testing

A single audit involves detail testing of individual programs (or clusters of programs) which are selected by the auditors using various criterion. Some of the factors are subjective and others have

very little flexibility. For example, programs of a certain size must be tested at least every third year. The audit team will select major programs based on the criteria listed in the Uniform Guidance and their risk assessment process. Programs/clusters selected as major will be communicated to management as soon as they are determined and a detailed request list will be provided. The following procedures describe our controls/compliance testing:

Procedure	Description
Determine major programs	<ul style="list-style-type: none"> <li>• Determine whether the auditee meets “low-risk” criteria by reviewing single audit reports and Federal Audit Clearinghouse submissions from the past two years. Calculate the required audit coverage ( 20 percent or 40 percent, depending on whether the entity is “low-risk”)</li> <li>• Perform risk assessments and select those programs required to be tested in the current year</li> <li>• Select additional programs, as necessary, to obtain sufficient audit coverage</li> <li>• Calculate materiality for each major program/cluster</li> </ul>
Gather information	<ul style="list-style-type: none"> <li>• Extract the general ledger transaction detail for the revenue and expenditure accounts used for each major program (complete general ledger detail already obtained through financial statement audit procedures)</li> <li>• Group general ledger transactions based on transaction type (i.e., payroll, accounts payable, indirect charge, etc.)</li> <li>• Summarize transactions by type and agree expenditures in total to the SEFA</li> <li>• Review the matrix of compliance requirements as provided in the OMB Compliance Supplement (if available) for selected programs and determine applicable compliance requirements</li> <li>• Obtain the grant agreement and budget and review along with the summarized general ledger postings to determine whether the compliance requirements indicated on the matrix are all applicable</li> <li>• Review the detail compliance requirements and suggested audit procedures of the specific grant in the OMB Compliance Supplement</li> <li>• Determine whether any other authoritative guidance exists, such as pass-through grantor manuals or memos, and review such requirements</li> </ul>
Controls/compliance testing (overall procedures)	<ul style="list-style-type: none"> <li>• Perform tests of controls and compliance for each applicable compliance area. Such procedures are generally a combination of inquiries/observations along with a sample of actual transactions</li> <li>• Select individually significant items for testing and sample remaining balances to obtain sufficient audit coverage for controls and compliance</li> <li>• Inquire of the internal controls over each compliance area and the method of documenting such controls</li> </ul>

	<ul style="list-style-type: none"> <li>• Review source documentation and determine whether the entity demonstrated compliance and documented controls over compliance.</li> <li>• Document understanding of each applicable compliance requirement, related internal controls, testing performed, and audit conclusions</li> </ul>
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General procedures for each of the applicable compliance requirements are as follows, but will vary based on audit risk assessment, materiality, provisions of the grant agreement, and other factors:

Procedure	Description
Allowable costs/cost principles	<ul style="list-style-type: none"> <li>• Review invoices and purchase orders for accounts payable disbursements. Determine whether disbursements were allowable in accordance with the provisions of the grant agreement and whether the disbursement was made and documented in accordance with the entity's purchasing policies.</li> <li>• Recalculate payroll charges based on approved timesheets and pay rates (for hourly employees)</li> <li>• Determine whether time and effort were documented in accordance with the Uniform Guidance</li> <li>• Analytically compare fringe benefit charges for Federal programs to entity-wide averages for reasonableness</li> <li>• Agree indirect charges to approved rates or cost allocation plan</li> </ul>
Cash management	<ul style="list-style-type: none"> <li>• Determine whether cash advances are allowed for the grant or if it is operated strictly on a reimbursement-basis</li> <li>• Review a sample of actual cash draws and compare to source documentation (such as a general ledger expenditure report)</li> <li>• For reimbursement-based grants, determine whether cash was disbursed (and not just expended) within 3 days of receipt</li> <li>• Identify whether the cash draw was subjected to a documented independent review and approval</li> </ul>
Eligibility	<ul style="list-style-type: none"> <li>• Determine eligibility requirements under the grant and whether they apply to individuals or groups of individuals</li> <li>• Obtain an understanding of how eligibility is determined, documented, and independently verified</li> <li>• Obtain a detail listing of the individuals/groups receiving benefits under the grant. Select a sample and review source documentation to verify eligibility</li> </ul>
Equipment and real property management	<ul style="list-style-type: none"> <li>• Determine whether the entity has purchased capital items with federal funds in the current or previous years</li> <li>• Obtain a listing of capital items purchased with federal funds and ensure that each asset is being flagged as "federally-funded" and listed along with the grantor agency name and other required information</li> </ul>

	<ul style="list-style-type: none"> <li>• Inquire of the most recent physical inventory and reconciliation to the accounting records and review documentation of this process</li> <li>• Determine whether any disposals during the current year were made in accordance with Federal guidelines</li> <li>• Inquire of the controls over safekeeping and appropriate use of federally-funded equipment. Determine whether a physical inspection or tour is necessary</li> </ul>
Matching, level of effort, and earmarking	<ul style="list-style-type: none"> <li>• Review management's documentation for compliance with minimum and maximum percentage requirements</li> <li>• Determine whether matching requirements were met and trace to supporting documentation</li> </ul>
Period of performance	<ul style="list-style-type: none"> <li>• Determine the period of performance of the grant by reviewing the award agreement</li> <li>• Select a sample of transactions and ensure that each was incurred during the period of performance</li> <li>• Determine whether grant funds were required to be expended in accordance with certain timelines and whether such requirements were met</li> </ul>
Procurement, suspension and debarment	<ul style="list-style-type: none"> <li>• Review the entity's purchasing and procurement policies. Determine when competitive bidding is required</li> <li>• Review a sample of transactions and determine whether each was processed in accordance with entity policies and procedures</li> <li>• Determine the expenditures in which competitive bidding was required. Select a sample of such expenditures and review procurement files for evidence of full and open competition and compliance with entity policies</li> <li>• Determine whether any vendors/contractors were utilized in the amount of \$25,000 or more for which suspension/debarment procedures would apply. Search vendor/contractor name on the Federal Excluded Parties List System (EPLS) and identify whether any are listed as suspended or debarred</li> <li>• Inquire of the controls over doing business with suspended or debarred parties. Review corroborating evidence, such as: excerpts of contracts, signed certifications regarding suspension/debarment, or other documentation, as applicable to the entity</li> </ul>
Program income	<ul style="list-style-type: none"> <li>• Determine whether the entity generated any income through use of grant funds. If so, ensure that it was accounted for appropriately and reinvested in the program</li> <li>• Inquire of the controls over ensuring that all program income is appropriately captured as such in the general ledger and therefore identifiable for reinvestment in the grant</li> </ul>

Reporting	<ul style="list-style-type: none"> <li>• Gain an understanding of the required reports (financial, performance, and/or special), and submission frequency</li> <li>• Select a sample of each type of report (financial, performance, and special) and trace reported amounts and data to the general ledger or other underlying records</li> <li>• Determine whether selected reports were submitted by the required due date</li> <li>• Review evidence of independent review and approval of reports prior to submission</li> </ul>
Subrecipient monitoring	<ul style="list-style-type: none"> <li>• Obtain a listing of the grant subrecipients and dollars passed-through to each</li> <li>• Select a sample of subrecipients and review subaward agreements for appropriate communication of required items</li> <li>• Review monitoring files for evidence of on-site review. Determine whether any finding were noted and if appropriate follow-up action was taken</li> <li>• Obtain subrecipient single audit reports (if applicable) and determine whether the amounts reported by the subrecipient reconcile to the entity's records. Review paperwork to support that this review and reconciliation was completed and follow-up action was taken as necessary</li> </ul>
Special tests and provisions	<ul style="list-style-type: none"> <li>• Identify special tests and provisions through review of the OMB Compliance Supplement and the grant agreement.</li> <li>• Design tests to determine compliance with such requirements, obtain information on the population, select a sample of transactions, and review evidence to support compliance</li> </ul>

### Report preparation and audit finalization

After all the detail testing is completed and related inquiries have been made, the auditors will identify whether any noncompliance or control deficiencies were noted. These instances will be evaluated for magnitude and materiality and an initial determination of method of communication will be made. The following summarizes the remaining procedures performed for the single audit:

Procedure	Description
Review of workpapers and evaluation of potential findings	<ul style="list-style-type: none"> <li>• As with the financial statement audit, all workpapers will be subjected to an independent review while the auditors are on-site. This will allow for follow-up on any questions to be completed in the field</li> <li>• At the end of audit fieldwork, or shortly thereafter, the workpapers and potential finding listing will be reviewed by the engagement partner. The appropriate method of communication for any noncompliance or control deficiencies will be determined</li> </ul>

Draft report	<ul style="list-style-type: none"> <li>• Draft report on Single Audit Act compliance. This may be included in the back of the entity's financial statement audit, or as a free-standing document, based on management's preference</li> <li>• Prepare required reports in accordance with <i>Government Auditing Standards</i> and the Uniform Guidance and ensure that language is consistent with authoritative guidance</li> <li>• Prepare the schedule of findings and questioned costs</li> <li>• Draft language for any items noted as control deficiencies and/or noncompliance. Each item will be identified by number, indicate the grant name and CFDA number, the pass-through agency (if applicable), and the pass-through/grantor award number. In accordance with professional standards, the write-up will include the <i>criteria</i> necessary for compliance, the <i>condition</i> noted in our testing, the primary reason(s) or <i>cause</i> for this condition, the related <i>effect</i> on the entity, and the auditors' <i>recommendation</i> for future action. In addition, there will be a section on the <i>view of responsible officials</i> where the entity can provide its perspective on the situation and planned corrective action</li> <li>• Enter data into the web-based data collection form for eventual submission to the Federal Audit Clearinghouse</li> </ul>
Technical standards review	<ul style="list-style-type: none"> <li>• Subject single audit report and data collection form to technical standards review by the engagement partner</li> <li>• Process draft report in PDF format and provide to management</li> </ul>
Review report with management	<ul style="list-style-type: none"> <li>• Either as part of the financial statement audit exit conference, or at a different pre-arranged time, meet with management to discuss the results of the audit</li> <li>• Discuss and clarify any reported audit findings and obtain initial management feedback. While reading of potential findings in written, draft report format may seem too formalized, we have found that it is best to communicate these items in writing, where they can be reviewed in detail by the engagement partner first. Our auditors are encouraged to avoid verbally concluding on the method of communication of audit findings or recommendations until they can be reviewed in context by the engagement partner. This limits the chance of miscommunication or misunderstanding</li> <li>• Agree to a timeline for report finalization, including: management feedback on drafts, "view of responsible officials" language for any findings, report issuance, and presentation to the governing body</li> </ul>
Finalization	<ul style="list-style-type: none"> <li>• Encourage management to review the draft reports in detail and agree reporting information to the entity's internal records</li> <li>• Obtain feedback from management on its review of the draft reports in detail</li> </ul>

- Discuss management objections to reported finding. Based on the extent of information and/or documentation provided, determine whether it is necessary to reclassify, reword, or remove any findings
- Subject single audit report and data collection form to a second technical standards review by another audit partner
- Provide management with final drafts
- Auditors receive signed representation letter and management authorizes finalization of reports
- Date audit reports to match the representation letter, prepare finals, and e-mail a clean PDF copy to management for distribution to the Board, grantor/pass-through agencies, or other interested parties.
- Print, bind, and mail paper copies of the report
- Initiate submission to the Federal Audit Clearinghouse. The audit principal will electronically certify the information and an e-mail with instructions will be provided for management to perform its certification
- Receive auto-generated notification via e-mail when the Federal Audit Clearinghouse receives and accepts the reporting package and certifications
- Present results of the audit to the governing body

Otsego County,  
Michigan



*Otsego*  
COUNTY  
M I C H I G A N

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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## 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*.

***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 Lobson LLC*

SAMPLE COPY

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

SAMPLE REPORT

# OTSEGO COUNTY, MICHIGAN

## Management's Discussion and Analysis

The government-wide financial statements include not only the County itself (known as the *primary government*), but also legally separate *component units* for which the County is financially accountable. 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.

# OTSEGO COUNTY, MICHIGAN

## 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
<b>Assets</b>						
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
<b>Total assets</b>	<b>34,739,080</b>	<b>33,954,484</b>	<b>15,821,628</b>	<b>16,220,458</b>	<b>50,560,708</b>	<b>50,174,942</b>
<b>Deferred outflows of resources</b>						
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	-
<b>Total deferred outflows</b>	<b>1,507,396</b>	<b>2,247,729</b>	<b>140,229</b>	<b>362,472</b>	<b>1,647,625</b>	<b>2,610,201</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>12,865,702</b>	<b>14,446,035</b>	<b>776,715</b>	<b>802,940</b>	<b>13,642,417</b>	<b>15,248,975</b>
<b>Deferred inflows of resources</b>						
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
<b>Total deferred inflows</b>	<b>4,280,209</b>	<b>3,856,179</b>	<b>204,850</b>	<b>197,975</b>	<b>4,485,059</b>	<b>4,054,154</b>
<b>Net position</b>						
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
<b>Total net position</b>	<b>\$ 19,100,565</b>	<b>\$ 17,899,999</b>	<b>\$ 14,980,292</b>	<b>\$ 15,582,015</b>	<b>\$ 34,080,857</b>	<b>\$ 33,482,014</b>

# OTSEGO COUNTY, MICHIGAN

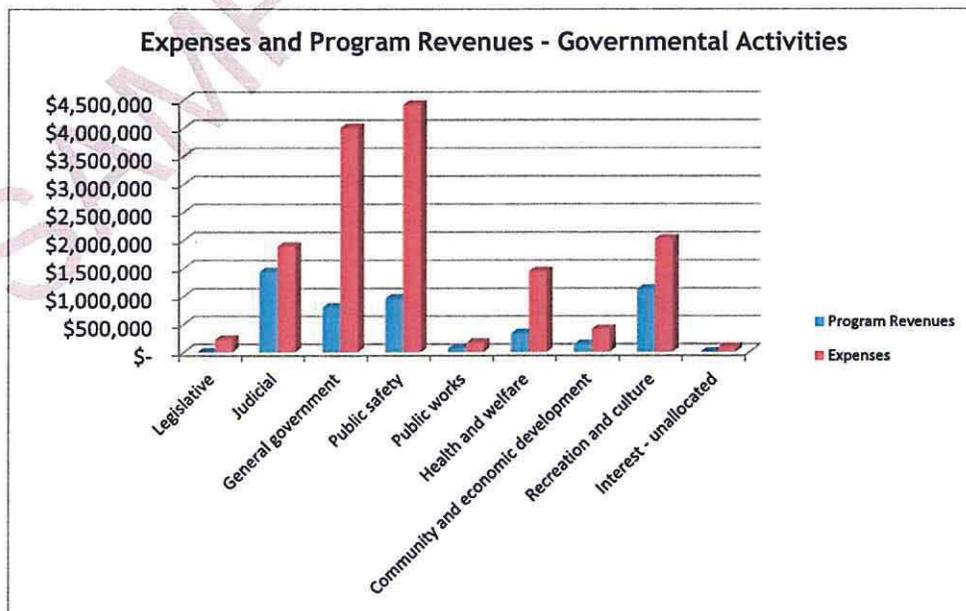
## Management's Discussion and Analysis

### 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.



# OTSEGO COUNTY, MICHIGAN

## 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
<b>Total capital assets, net</b>	<b>\$12,742,238</b>	<b>\$10,644,933</b>	<b>\$ 6,573,459</b>	<b>\$ 6,941,708</b>	<b>\$19,315,697</b>	<b>\$17,586,641</b>

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.

**BASIC FINANCIAL STATEMENTS**

SAMPLE REPORT

OTSEGO COUNTY, MICHIGAN

Statement of Net Position  
December 31, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
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
<b>Total assets</b>	<b>34,739,080</b>	<b>15,821,628</b>	<b>50,560,708</b>	<b>48,318,784</b>
<b>Deferred outflows of resources</b>				
Deferred pension amounts	1,409,578	140,229	1,549,807	789,530
Deferred other postemployment benefit amounts	97,818	-	97,818	-
<b>Total deferred outflows</b>	<b>1,507,396</b>	<b>140,229</b>	<b>1,647,625</b>	<b>789,530</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>12,865,702</b>	<b>776,715</b>	<b>13,642,417</b>	<b>13,842,864</b>
<b>Deferred inflows of resources</b>				
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
<b>Total deferred inflows</b>	<b>4,280,209</b>	<b>204,850</b>	<b>4,485,059</b>	<b>3,630,772</b>
<b>Net position</b>				
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)
<b>Total net position</b>	<b>\$ 19,100,565</b>	<b>\$ 14,980,292</b>	<b>\$ 34,080,857</b>	<b>\$ 31,634,678</b>

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

**OTSEGO COUNTY, MICHIGAN**

**Statement of Activities**

For the Year Ended December 31, 2018

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
<b>Changes in net position</b>				
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.

**FUND FINANCIAL STATEMENTS**

SAMPLE REPORT

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
<u>\$ 669,183</u>	<u>\$ 655,000</u>	<u>\$ 12,245,324</u>	<u>\$ 21,623,668</u>
\$ 115,177	\$ -	\$ 320,972	\$ 630,567
-	-	18,938	84,670
-	-	114,587	184,209
-	-	9,428	9,428
-	-	210,532	210,532
<u>115,177</u>	<u>-</u>	<u>674,457</u>	<u>1,119,406</u>
-	-	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
<u>554,006</u>	<u>-</u>	<u>8,534,577</u>	<u>14,452,858</u>
<u>\$ 669,183</u>	<u>\$ 655,000</u>	<u>\$ 12,245,324</u>	<u>\$ 21,623,668</u>

# OTSEGO COUNTY, MICHIGAN

## 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.

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
<u>13</u>	<u>69,450</u>	<u>6,728,308</u>	<u>15,325,332</u>
-	-	-	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
<u>2,373,066</u>	<u>-</u>	<u>631,017</u>	<u>3,004,083</u>
<u>2,384,800</u>	<u>704,813</u>	<u>6,290,079</u>	<u>17,016,533</u>
<u>(2,384,787)</u>	<u>(635,363)</u>	<u>438,229</u>	<u>(1,691,201)</u>
<u>1,393,163</u>	<u>635,363</u>	<u>681,382</u>	<u>2,803,448</u>
-	-	(1,975,180)	(2,613,819)
<u>1,393,163</u>	<u>635,363</u>	<u>(1,293,798)</u>	<u>189,629</u>
(991,624)	-	(855,569)	(1,501,572)
<u>1,545,630</u>	<u>-</u>	<u>9,390,146</u>	<u>15,954,430</u>
<u>\$ 554,006</u>	<u>\$ -</u>	<u>\$ 8,534,577</u>	<u>\$ 14,452,858</u>

**OTSEGO COUNTY, MICHIGAN**

**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
<b>Revenues</b>				
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
<b>Total revenues</b>	<b>8,219,255</b>	<b>8,333,047</b>	<b>8,381,545</b>	<b>48,498</b>
<b>Expenditures</b>				
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)
<b>Total judicial</b>	<b>1,636,411</b>	<b>1,643,689</b>	<b>1,381,030</b>	<b>(262,659)</b>
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)
<b>Total general government</b>	<b>2,280,953</b>	<b>2,329,299</b>	<b>2,262,259</b>	<b>(67,040)</b>

Continued...

**OTSEGO COUNTY, MICHIGAN**

**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
<b>Other financing sources (uses)</b>				
Transfers in	\$ 65,484	\$ 93,349	\$ 93,284	\$ (65)
Transfers out	(588,048)	(638,639)	(638,639)	-
<b>Total other financing sources (uses)</b>	<u>(522,564)</u>	<u>(545,290)</u>	<u>(545,355)</u>	<u>(65)</u>
<b>Net change in fund balance</b>	(5,000)	(165,151)	382,598	547,749
<b>Fund balance, beginning of year</b>	<u>4,868,675</u>	<u>4,868,675</u>	<u>4,868,675</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 4,863,675</u>	<u>\$ 4,703,524</u>	<u>\$ 5,251,273</u>	<u>\$ 547,749</u>
				Concluded

SAMPLE REPORT

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

**OTSEGO COUNTY, MICHIGAN**

**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
<b>Revenues</b>				
Taxes	\$ -	\$ 21,269	\$ 18,971	\$ (2,298)
Other	-	5,555	5,555	-
<b>Total revenues</b>	-	26,824	24,526	(2,298)
<b>Expenditures</b>				
Current:				
Community and economic development	-	26,824	24,526	(2,298)
<b>Net change in fund balance</b>	-	-	-	-
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ -	\$ -

SAMPLE REPORT

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

Nonmajor Enterprise Funds	Total	Governmental Activities
		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
<u>2,059,347</u>	<u>9,269,013</u>	<u>557,383</u>
-	99,998	-
61,482	6,473,461	-
<u>61,482</u>	<u>6,573,459</u>	<u>-</u>
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	-
<u>57,603</u>	<u>361,811</u>	<u>30,743</u>
-	20,844	-
-	25,545	-
-	389,359	-
<u>-</u>	<u>435,748</u>	<u>-</u>
57,603	797,559	30,743
-	204,850	-
61,482	6,573,459	-
<u>2,001,744</u>	<u>8,406,833</u>	<u>526,640</u>
<u>\$ 2,063,226</u>	<u>\$ 14,980,292</u>	<u>\$ 526,640</u>

		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	-	
<u>372,384</u>	<u>1,964,569</u>	<u>2,253,032</u>	
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	
<u>546,238</u>	<u>4,132,919</u>	<u>2,236,511</u>	
<u>(173,854)</u>	<u>(2,168,350)</u>	<u>16,521</u>	
-	315,663	-	
-	258,567	-	
-	546,402	-	
44,989	(17,226)	3,905	
241,813	263,089	-	
<u>286,802</u>	<u>1,366,495</u>	<u>3,905</u>	
<u>112,948</u>	<u>(801,855)</u>	<u>20,426</u>	
31,000	197,335	-	
(18,184)	(370,284)	(520)	
-	373,081	-	
<u>12,816</u>	<u>200,132</u>	<u>(520)</u>	
125,764	(601,723)	19,906	
<u>1,937,462</u>	<u>15,582,015</u>	<u>506,734</u>	
<u>\$ 2,063,226</u>	<u>\$ 14,980,292</u>	<u>\$ 526,640</u>	

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)
<u>(114,711)</u>	<u>(1,165,874)</u>	<u>78,917</u>
-	315,397	-
-	264,417	-
-	682,673	-
241,813	263,089	-
-	(31,275)	-
31,000	197,335	-
(18,184)	(370,284)	(520)
<u>254,629</u>	<u>1,321,352</u>	<u>(520)</u>
-	(438,985)	-
-	298,465	-
-	74,616	-
<u>-</u>	<u>(65,904)</u>	<u>-</u>
-	966,224	-
(406,235)	(406,235)	-
44,989	(17,226)	3,905
<u>(361,246)</u>	<u>542,763</u>	<u>3,905</u>
(221,328)	632,337	82,302
<u>661,317</u>	<u>1,422,205</u>	<u>162,548</u>
<u>\$ 439,989</u>	<u>\$ 2,054,542</u>	<u>\$ 244,850</u>

Continued...

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)	-
<u>\$ (114,711)</u>	<u>\$ (1,165,874)</u>	<u>\$ 78,917</u>

Concluded

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SAMPLE REPORT

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	
<u>494,186</u>		<u>48,318,784</u>	
-		<u>789,530</u>	
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	
<u>26,902</u>		<u>13,842,864</u>	
313,898		2,543,027	
-		1,087,745	
<u>313,898</u>		<u>3,630,772</u>	
-		36,628,028	
-		44,043	
<u>153,386</u>		<u>(5,037,393)</u>	
<u>\$ 153,386</u>		<u>\$ 31,634,678</u>	

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

SAMPLE REPORT

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### **Reporting Entity**

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

#### *Blended Component 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.

# OTSEGO COUNTY, MICHIGAN

## 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.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

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

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

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

The County reports the following major governmental funds:

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

The *Housing Commission* special revenue fund accounts for grant revenue and contributions restricted for the improvement of housing within the County.

The *M-TEC* special revenue fund accounts for activities of an educational facility providing workforce development programs.

The *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.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

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

#### *Deposits and Investments*

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

State statutes authorize the County to invest in:

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

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

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

Bankers' acceptances of United States banks.

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

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

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

#### *Receivables and Payables*

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

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

The accounts receivable for the Ambulance Corporation component unit is presented net of allowance for doubtful accounts of \$420,000.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### *Road Commission - Discretely Presented Component Unit*

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

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

### *Deferred Outflows of Resources*

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

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### *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.

# OTSEGO COUNTY, MICHIGAN

## 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
<b>General fund</b>			
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
<b>Statement of Net Position</b>			
Cash and cash equivalents	\$ 11,237,058	\$ 2,175,674	\$ 13,412,732
Investments	11,052,577	2,279,669	13,332,246
<b>Statement of Fiduciary Assets and Liabilities</b>			
Cash and cash equivalents	1,936,022	-	1,936,022
<b>Total</b>	<b>\$ 24,225,657</b>	<b>\$ 4,455,343</b>	<b>\$ 28,681,000</b>
<b>Deposits and investments</b>			
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
<b>Total</b>			<b>\$ 28,681,000</b>

# OTSEGO COUNTY, MICHIGAN

## 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
<b>Total investments at fair value</b>	<b>\$ -</b>	<b>\$ 11,923,951</b>	<b>\$ -</b>	<b>11,923,951</b>
<b>Total</b>				<b>\$ 11,923,951</b>

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.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Governmental Activities	Business-type Activities	Component 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	-	-
<b>Totals</b>	<b>\$ 762,233</b>	<b>\$ 359,607</b>	<b>\$ 434,656</b>

### 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
	<b>\$ 184,209</b>	<b>\$ 184,209</b>

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
	<b>\$ 20,844</b>	<b>\$ 20,844</b>

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### 9. CAPITAL ASSETS

#### Primary government

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental activities</b>					
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
<b>Total capital assets not being depreciated, net</b>	<b>2,805,028</b>	<b>2,605,740</b>	<b>-</b>	<b>(203,117)</b>	<b>5,207,651</b>
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
	<b>23,872,857</b>	<b>428,119</b>	<b>-</b>	<b>203,117</b>	<b>24,504,093</b>
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)
	<b>(16,032,952)</b>	<b>(936,554)</b>	<b>-</b>	<b>-</b>	<b>(16,969,506)</b>
<b>Total capital assets being depreciated, net</b>	<b>7,839,905</b>	<b>(508,435)</b>	<b>-</b>	<b>203,117</b>	<b>7,534,587</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 10,644,933</b>	<b>\$ 2,097,305</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,742,238</b>

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### Discretely presented component units

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

	Beginning Balance	Additions	Disposals/ Adjustments	Ending Balance
<b>Component Unit - Road Commission</b>				
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
	<u>44,707,245</u>	<u>3,759,234</u>	<u>(1,598,598)</u>	<u>46,867,881</u>
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)
	<u>(21,748,717)</u>	<u>(2,313,905)</u>	<u>1,598,487</u>	<u>(22,464,135)</u>
Total capital assets being depreciated, net	<u>22,958,528</u>	<u>1,445,329</u>	<u>(111)</u>	<u>24,403,746</u>
<b>Road Commission capital assets, net</b>	<u>\$ 33,848,512</u>	<u>\$ 2,202,464</u>	<u>\$ (111)</u>	<u>\$ 36,050,865</u>

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### 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
<b>Governmental Activities</b>					
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

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Discretely Presented Component Units</b>					
<b>Road Commission</b>					
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	-

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### 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.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### *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.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### 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.

# OTSEGO COUNTY, MICHIGAN

## 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	<u>106</u>
<b>Total membership</b>	<b><u>258</u></b>

*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%

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

**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.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

### *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.

# OTSEGO COUNTY, MICHIGAN

## Notes to Financial Statements

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	<u>\$ 1,848,952</u>
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	<u>81,749</u>
Balances at December 31, 2017	<u><u>\$ 1,930,701</u></u>

*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

**OTSEGO COUNTY, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**20. FUND BALANCES - GOVERNMENTAL FUNDS**

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

	General Fund	Housing Commission 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
<b>Total nonspendable</b>	<b>32,179</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,560</b>	<b>39,739</b>
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
<b>Total restricted</b>	<b>-</b>	<b>113,002</b>	<b>-</b>	<b>554,006</b>	<b>6,295,612</b>	<b>6,962,620</b>
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
<b>Total committed</b>	<b>150,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,248,661</b>	<b>2,398,661</b>
Unassigned (deficit)	5,069,094	-	-	-	(17,256)	5,051,838
<b>Total fund balances, governmental funds</b>	<b>\$ 5,251,273</b>	<b>\$ 113,002</b>	<b>\$ -</b>	<b>\$ 554,006</b>	<b>\$ 8,534,577</b>	<b>\$ 14,452,858</b>

# OTSEGO COUNTY, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### 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
		<hr/>
<b>Total estimated cost of the Trailhead Project</b>	<b>\$</b>	<b>920,000</b>
		<hr/>

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
		<hr/>
<b>Total estimated cost of the Groen Preserve Projects</b>	<b>\$</b>	<b>440,000</b>
		<hr/>

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.



# OTSEGO COUNTY, MICHIGAN

## 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
<b>Total pension liability</b>				
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)	-	-	-
<b>Net change in total pension liability</b>	<b>645,120</b>	<b>322,971</b>	<b>2,548,216</b>	<b>840,003</b>
Total pension liability, beginning of year	21,963,521	21,640,550	19,092,334	18,252,331
<b>Total pension liability, end of year</b>	<b>22,608,641</b>	<b>21,963,521</b>	<b>21,640,550</b>	<b>19,092,334</b>
<b>Plan fiduciary net position</b>				
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)	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>1,634,013</b>	<b>1,058,271</b>	<b>(629,070)</b>	<b>436,382</b>
Plan fiduciary net position, beginning of year	13,589,341	12,531,070	13,160,140	12,723,758
<b>Plan fiduciary net position, end of year</b>	<b>15,223,354</b>	<b>13,589,341</b>	<b>12,531,070</b>	<b>13,160,140</b>
<b>County's net pension liability</b>	<b>\$ 7,385,287</b>	<b>\$ 8,374,180</b>	<b>\$ 9,109,480</b>	<b>\$ 5,932,194</b>
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.

# OTSEGO COUNTY, MICHIGAN

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

### Schedule of Contributions

Fiscal Year Ending December 31,	Actuarially Determined Contribution <sup>(2)</sup>	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll <sup>(1)</sup>	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.

**OTSEGO COUNTY, MICHIGAN**

**Required Supplementary Information**  
 Single-Employer Other Postemployment Benefits Plan

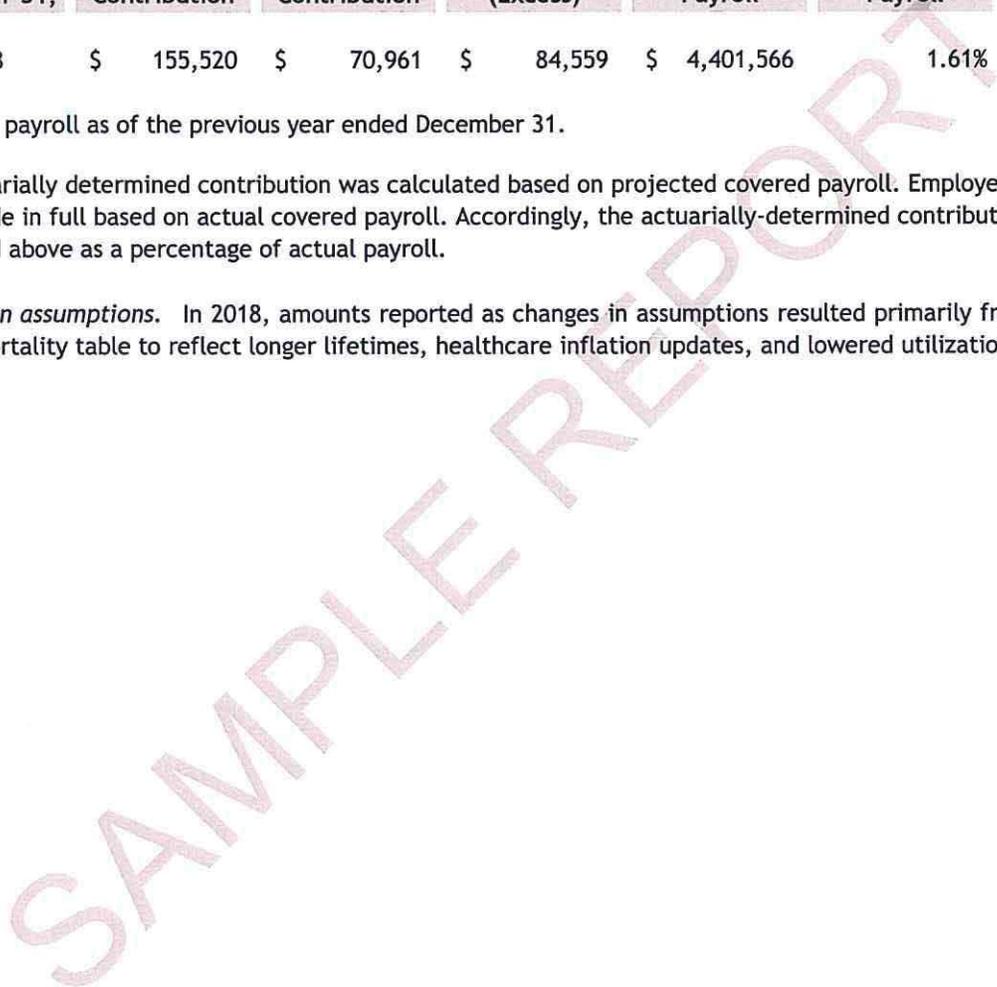
**Schedule of Contributions**

Fiscal Year Ending December 31,	Actuarially Determined Contribution <sup>(2)</sup>	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll <sup>(1)</sup>	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.



**OTSEGO COUNTY, MICHIGAN**

**Combining Balance Sheet**  
 Nonmajor Governmental Funds  
 December 31, 2018

	Special Revenue	Capital Projects	Total
<b>Assets</b>			
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
<b>Total assets</b>	<b>\$ 7,060,927</b>	<b>\$ 5,184,397</b>	<b>\$ 12,245,324</b>
<b>Liabilities</b>			
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
<b>Total liabilities</b>	<b>522,628</b>	<b>151,829</b>	<b>674,457</b>
<b>Deferred inflows of resources</b>			
Taxes levied for a subsequent period	2,328,861	707,429	3,036,290
<b>Fund balances</b>			
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)
<b>Total fund balances</b>	<b>4,209,438</b>	<b>4,325,139</b>	<b>8,534,577</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 7,060,927</b>	<b>\$ 5,184,397</b>	<b>\$ 12,245,324</b>

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SAMPLE REPORT

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	-	-	-	-
<u>\$ 358,272</u>	<u>\$ 788,299</u>	<u>\$ 8,188</u>	<u>\$ 578,070</u>	<u>\$ 114,584</u>
\$ 8,167	\$ 10,571	\$ -	\$ 39,402	\$ -
5,980	3,379	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>14,147</u>	<u>13,950</u>	<u>-</u>	<u>39,402</u>	<u>-</u>
-	376,469	-	438,014	-
5,856	-	-	-	-
-	397,880	8,188	100,654	114,584
338,269	-	-	-	-
<u>344,125</u>	<u>397,880</u>	<u>8,188</u>	<u>100,654</u>	<u>114,584</u>
<u>\$ 358,272</u>	<u>\$ 788,299</u>	<u>\$ 8,188</u>	<u>\$ 578,070</u>	<u>\$ 114,584</u>

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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	-	-	-	-
-	-	-	-	-
<u>\$ 494,895</u>	<u>\$ 34,538</u>	<u>\$ 28,802</u>	<u>\$ 20,157</u>	<u>\$ 10,751</u>
\$ 7,654	\$ -	\$ -	\$ 786	\$ 285
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>7,654</u>	<u>-</u>	<u>-</u>	<u>786</u>	<u>285</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
487,241	34,538	28,802	19,371	10,466
-	-	-	-	-
<u>487,241</u>	<u>34,538</u>	<u>28,802</u>	<u>19,371</u>	<u>10,466</u>
<u>\$ 494,895</u>	<u>\$ 34,538</u>	<u>\$ 28,802</u>	<u>\$ 20,157</u>	<u>\$ 10,751</u>

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SAMPLE REPORT

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	-
<u>387,606</u>	<u>449,027</u>	<u>15</u>	<u>318,082</u>	<u>195</u>
448,956	-	-	-	-
-	-	-	363,571	-
-	438,923	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>448,956</u>	<u>438,923</u>	<u>-</u>	<u>363,571</u>	<u>-</u>
(61,350)	10,104	15	(45,489)	195
93,453	550	-	-	-
-	-	-	-	-
<u>93,453</u>	<u>550</u>	<u>-</u>	<u>-</u>	<u>-</u>
32,103	10,654	15	(45,489)	195
312,022	387,226	8,173	146,143	114,389
<u>\$ 344,125</u>	<u>\$ 397,880</u>	<u>\$ 8,188</u>	<u>\$ 100,654</u>	<u>\$ 114,584</u>

Continued...

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	-
<u>713,051</u>	<u>13,891</u>	<u>9,080</u>	<u>3,500</u>	<u>18</u>
-	-	-	-	-
-	-	-	-	-
776,797	1,977	2,354	-	-
-	-	-	-	-
-	-	-	-	6,719
-	-	-	1,302	-
-	-	-	-	-
-	-	-	-	-
<u>776,797</u>	<u>1,977</u>	<u>2,354</u>	<u>1,302</u>	<u>6,719</u>
<u>(63,746)</u>	<u>11,914</u>	<u>6,726</u>	<u>2,198</u>	<u>(6,701)</u>
-	-	-	-	9,120
<u>(22,300)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(22,300)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,120</u>
(86,046)	11,914	6,726	2,198	2,419
573,287	22,624	22,076	17,173	8,047
<u>\$ 487,241</u>	<u>\$ 34,538</u>	<u>\$ 28,802</u>	<u>\$ 19,371</u>	<u>\$ 10,466</u>

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SAMPLE REPORT

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	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 169,140</u>	<u>\$ 15,741</u>	<u>\$ 219</u>	<u>\$ 695,110</u>	<u>\$ 820,492</u>	<u>\$ 95,466</u>	<u>\$ 318,811</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,295
-	-	-	84	-	95,535	-
-	-	-	-	-	-	-
-	-	-	84	-	95,535	14,295
-	-	-	-	-	-	-
-	-	-	234,710	-	-	-
-	-	-	460,316	-	-	304,516
169,140	15,741	219	-	820,492	-	-
-	-	-	-	-	(69)	-
<u>169,140</u>	<u>15,741</u>	<u>219</u>	<u>460,316</u>	<u>820,492</u>	<u>(69)</u>	<u>304,516</u>
<u>\$ 169,140</u>	<u>\$ 15,741</u>	<u>\$ 219</u>	<u>\$ 695,110</u>	<u>\$ 820,492</u>	<u>\$ 95,466</u>	<u>\$ 318,811</u>

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SAMPLE REPORT

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

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SAMPLE REPORT

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
<u>29,893</u>	<u>2,991</u>	<u>18,509</u>	<u>12,288</u>	<u>2,059,347</u>
-	-	-	-	61,482
<u>29,893</u>	<u>2,991</u>	<u>18,509</u>	<u>12,288</u>	<u>2,120,829</u>
-	-	10,325	-	56,106
-	-	-	-	923
574	-	-	-	574
<u>574</u>	<u>-</u>	<u>10,325</u>	<u>-</u>	<u>57,603</u>
-	-	-	-	61,482
<u>29,319</u>	<u>2,991</u>	<u>8,184</u>	<u>12,288</u>	<u>2,001,744</u>
<u>\$ 29,319</u>	<u>\$ 2,991</u>	<u>\$ 8,184</u>	<u>\$ 12,288</u>	<u>\$ 2,063,226</u>

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

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

**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
<b>Operating revenues</b>				
Charges for services	\$ 456,955	\$ 603,948	\$ 1,192,129	\$ 2,253,032
<b>Operating expenses</b>				
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
<b>Total operating expenses</b>	<b>492,419</b>	<b>567,057</b>	<b>1,177,035</b>	<b>2,236,511</b>
Operating (loss) income	(35,464)	36,891	15,094	16,521
<b>Nonoperating revenues</b>				
Investment earnings	-	-	3,905	3,905
(Loss) income before transfers	(35,464)	36,891	18,999	20,426
<b>Transfers</b>				
Transfers out	-	(520)	-	(520)
<b>Change in net position</b>	<b>(35,464)</b>	<b>36,371</b>	<b>18,999</b>	<b>19,906</b>
Net position, beginning of year	107,598	62,014	337,122	506,734
<b>Net position, end of year</b>	<b>\$ 72,134</b>	<b>\$ 98,385</b>	<b>\$ 356,121</b>	<b>\$ 526,640</b>

**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
<b>Assets</b>					
Cash and cash equivalents	\$ 1,204,844	\$ 274,701	\$ 86,377	\$ 370,100	\$ 1,936,022
<b>Liabilities</b>					
Undistributed tax collections	\$ 848,250	\$ -	\$ -	\$ -	\$ 848,250
Bonds, restitutions, and payables to others	356,594	274,701	86,377	370,100	1,087,772
<b>Total liabilities</b>	\$ 1,204,844	\$ 274,701	\$ 86,377	\$ 370,100	\$ 1,936,022

SAMPLE REPORT

**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.

## OTSEGO COUNTY, MICHIGAN

### 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.

■ ■ ■ ■ ■

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: *Annette Eustice*

Name (typed): Annette Eustice

Title: Principal

Firm: Rehmann

Date: *12/30/19*

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: *Annette Eustice*

Name (typed): Annette Eustice

Title: Principal

Firm: Rehmann

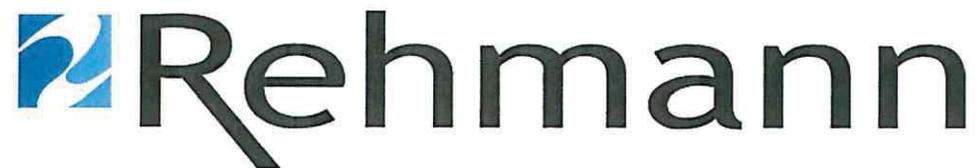
Date: *12/30/19*

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The undersigned, Annette Eustice, is authorized to bind our firm to any agreement resulting from this proposal and to make representations on behalf of the firm.

*Annette Eustice*

Total all-inclusive maximum price for the December 31, 2019, audited financial statements: **\$40,250**

# Cost Bid Proposal

for

## Otsego County

for the

Years Ended December 2019 through 2022

### Schedule of Estimated Hours

	<u>Supervisor/</u>		<u>Senior/</u>	<u>Support</u>	<u>Total</u>
	<u>Principal</u>	<u>Manager</u>	<u>Associates</u>		
Audit Planning	10	20	15	5	50
Primary fieldwork and testing	10	40	175	0	225
Preparation and issuance of audit reports	5	5	35	10	55
Conclusion and issuance	<u>5</u>	<u>15</u>	<u>25</u>	<u>0</u>	<u>45</u>
<b>Total estimated hours</b>	<u>30</u>	<u>80</u>	<u>250</u>	<u>15</u>	<u>375</u>

### Schedule of the Professional Fees for the Audit of the 2019 Financial Statements

	<u>Hours</u>	<u>Quoted</u>	<u>Total</u>
		<u>Hourly</u>	
		<u>Rates</u>	
Principals	30	\$150	\$ 4,500
Sr. Manager/Manager	80	\$125	10,000
Senior/Associate	250	\$100	25,000
Support	<u>15</u>	\$50	<u>750</u>
<b>Maximum price for the December 31, 2019, audit of Otsego County's basic financial statements including Single Audit compliance (maximum two federal programs) and all out of pocket expenses</b>	<u>375</u>		<u>\$40,250</u>

### Assurance Services

### Fees

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Audit of Otsego County's basic financial statements including Single Audit compliance (maximum two federal programs)	\$40,250	\$42,250	\$44,500	\$46,750

The non-to-exceed fee for the audit of the basic financial statements including single audit compliance includes two major federal programs. If the County has more than two major programs a fee of \$3,000 will be charged for each additional program.

These fees are based on the presumption that the County's accounting records are reasonably adjusted and auditable. Any additional services requested to assist the County in preparing reasonably adjusted trial balances or in drafting the financial statements and footnotes will be discussed in advance with appropriate County personnel and, if requested, we will provide assistance, which will be billed at a blended hourly rate of \$125. This same rate will apply to other ancillary services the County may request. We emphasize regular contact with our clients and are always available to answer questions you may have. There will be no fees related to these contacts unless significant research and response preparation time is involved. We will inform you in advance if we believe a particular service will require an additional fee.

The fees quoted for years subsequent to 2019 may be subject to renegotiation if changes in professional standards or reporting requirements make our initial estimate of hours to complete the audit unrealistic. If any such changes occur, we will discuss the reasons with you and arrive at a new fee arrangement prior to incurring any additional charges.

Our invoices for these fees are due and payable as follows for the year ended December 31, 2019:

\$15,000	due March 16 2020
\$15,000	due May 15, 2020
\$10,250	due June 30, 2020

Any additional federal programs (greater than two programs per year) will be billed on June 30, 2020, if applicable.

#### **DUE DILIGENCE – OFFICIAL STATEMENTS**

Following guidance issued by the AICPA and Government Finance Officers Association, this service is optional. Unless you specifically request written consent from our Firm, professional standards presume that we are not associated with such documents, and accordingly, we are not required to perform any procedures or incur any additional costs for the County. Of course, should you choose to request such written consent, we will be willing to provide it, at a cost of \$2,500 per issue.

#### **NO SURPRISE INVOICES**

We strive to deliver business wisdom for a fee that is fair, reasonable and representative of the value delivered. Our approach to establishing fees is to compare prior year hours required, and to discuss expected outcomes and the proposed services to be provided before work is done. This reduces the possibility of surprises when invoices are ultimately delivered. If services are required beyond the scope of this engagement, we will discuss it with you before beginning any work, and provide a cost estimated for those additional services.

**TECHNICAL PROPOSAL TO PROVIDE PROFESSIONAL AUDITING  
SERVICES TO**

**OTSEGO COUNTY  
INDEPENDENT AUDIT SERVICES**

December 30, 2019

**VREDEVELD HAEFNER LLC**  
Douglas Vredevelde (616) 446-7474  
10302 20<sup>TH</sup> AVENUE  
GRAND RAPIDS, MI 49534



# PROPOSAL CONTENTS

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## **ATTACHMENTS**

Peer Review Report

Client Listing

Management Team Resumes

## **APPENDIX**

B - Proposer Guarantees

C - Proposer Warrantees



## Vredeveld Haefner LLC

CPAs and Consultants  
10302 20<sup>th</sup> Avenue  
Grand Rapids, MI 49534  
Fax (616) 828-0307

Douglas J. Vredeveld, CPA  
(616) 446-7474  
Peter S. Haefner, CPA  
(616) 460-9388

December 30, 2019

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

Thank you for allowing Vredeveld Haefner LLC the opportunity to submit this proposal to provide auditing services (in accordance with your time schedule) to Otsego County. Doug Vredeveld and Peter Haefner have over 50 years of experience in governmental accounting and auditing and formed the firm Vredeveld Haefner LLC **to provide superior service and expertise to governmental entities by specializing in working with the governmental community.** We are committed to knowing your business and providing timely professional service.

Our firm is the best qualified to perform your audit due to our superior service. We believe the ability to provide superior service is the result of our specialization in the governmental industry and our focus on customer satisfaction and delivery of results. Our firm has worked with many governmental entities in varying capacities including as independent auditor, interim finance director, consultant and as Board members, and **bring significant experience and expertise to you.** A second component to service is that the firm's partners will work directly with you throughout the year. An important factor which differentiates our firm from others is that one of our partners will be in the field at your location during your audit's fieldwork.

This proposal offers an overview of Vredeveld Haefner LLC's capabilities and the benefits of working with us. We look forward to the next step in this process—a step which we hope begins our professional relationship. Vredeveld Haefner LLC commits to maintaining this proposal as a firm and irrevocable offer for 31 days. Thank you for considering Vredeveld Haefner LLC as your independent Certified Public Accountants. We are available to answer any questions you may have regarding any aspect of our firm, our capabilities or the accompanying proposal.

Sincerely,  
Vredeveld Haefner LLC

Douglas J. Vredeveld, CPA  
Partner

---

## INDEPENDENCE

Vredeveld Haefner LLC is independent of Otsego County and all of its component units as defined by auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Vredeveld Haefner LLC currently has no professional relationships that may constitute a conflict of interest relative to performing the County's engagement. Vredeveld Haefner LLC will provide full disclosure of all client relationships that give rise to conflicts of interest and/or impairment of independence during the term of our engagement.

## LICENSE TO PRACTICE IN MICHIGAN

Vredeveld Haefner LLC and all professional staff for this engagement are properly licensed to practice in the State of Michigan. The firm and all personnel adhere to the professional standards set forth by the American Institute of Certified Public Accountants. Vredeveld Haefner LLC carries appropriate professional liability insurance.

## FIRM QUALIFICATIONS AND EXPERIENCE

### OUR BEGINNING

Vredeveld Haefner LLC was established in 2006 to provide superior service and expertise to governmental and nonprofit entities by specializing in working exclusively with these organizations. Our firm has completed our 13th year in business and we are thrilled with the level and quality of the clients that we have been able to serve as auditors and consultants.

### WHO WE ARE

Vredeveld Haefner LLC is a local Grand Rapids firm with a mission to provide high-value and high-quality services to the governmental and not-for-profit sector at a competitive price while utilizing the most knowledgeable staff. Our total staff consists of eight full-time professional staff and one part-time administrative staff, all of whom work exclusively on governmental and not-for-profit audits. Vredeveld Haefner LLC works almost exclusively in the West and Northern Michigan areas. All members of our audit team have experience auditing federal programs as required by the Federal Uniform Guidance. This experience includes the audit of entities with one major federal program to entities with over \$10,000,000 of federal financial assistance and multiple major federal programs.

Along with utilizing high level associates to deliver the superior service we promise; our firm has implemented a business model that is on the cutting edge of how professional services firms are operating their businesses. We operate through a virtual office and are completely mobile to conduct every aspect of our business where it matters most...face-to-face with you! The benefits to us and our clients have been significant. **This model allows us to work very efficiently with high flexibility which enables us to provide quality services to our clients.**

No matter what your need may be now or in the future, we have a solution. Our ability to provide superior service is the result of our specialization, our focus on customer satisfaction and delivery of results. Our team of professionals has worked with numerous governmental entities in varying capacities including as independent auditor, interim finance director, consultant and as Board members.

If you would like additional information on our mission, vision or qualifications please visit our website at [www.vh-cpas.com](http://www.vh-cpas.com).

Our firm is a member of the American Institute of Certified Public Accountants (including the Government Audit Quality Center and the Employee Benefit Plan Audit Quality Center), Michigan Association of Certified Public Accountants, Michigan School Business Officials, Government Finance Officers Association, Michigan Government Finance Officers Association, Kent County Treasurers Association and the Association of Government Accountants.

### **EXTERNAL PEER REVIEW**

The current peer review program as administered by the Michigan Association of Public Accountants (MACPA) and the American Institute of Certified Public Accountants (AICPA) require that our firm and CPA firms providing various assurance services to have a system of quality control and a peer review of this system every three years. Our most recent peer review was conducted in the fall of 2019 and is expected to be issued in January 2020 with no findings or letter of comment items. A copy of our 2016 peer review report, which included no findings or letter of comment items is included in the attachments.

### **REGULATORY REVIEW**

Vredeveld Haefner LLC does not have a record of substandard work which is evidenced in the attached peer review report. We do not have any knowledge of any field reviews and although we assume the State of Michigan and federal government do perform period desk reviews, we have not had any related comments or requests for additional information. In addition, the firm has had no instances of disciplinary action taken against the firm or ethics referrals to any regulatory authority from firm inception-to-date.

### **PARTNER, SUPERVISOR AND STAFF QUALIFICATIONS AND EXPERIENCE**

Your audit will be performed full-time by Doug Vredeveld, CPA (engagement partner, 100 hours one site), Jason Mitchell, CPA (senior manager, 100 hours on site) and one or two staff (100 hours on site each, depending on the audit needs) with the assistance of Peter Haefner (concurring partner). All senior team members involved in your engagement are Certified Public Accountants (CPAs) and have the required continuing professional education to perform your audit engagement in accordance with *Governmental Auditing Standards*. We are constantly striving to improve the quality and efficiency of our work. Each member of our team obtains at least 40 hours of continuing professional education annually; most of which is specifically government related and is focused on matters that directly correlate to the clients we serve.

Our experience in providing the proposed services is extensive. We have audited many school districts, Housing and Urban Development properties, cities, counties and other large local units of government throughout the State of Michigan as well as dozens of smaller municipalities and special purpose governments including authorities, villages and townships as well as charter schools.

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The client listing included in the attachments to this proposal provides information regarding our current clients. Throughout these engagements, we have helped numerous municipalities compile comprehensive annual financial reports for continued and first-time submission to the GFOA and ASBO Certificate of Achievement for Excellence in Finance Reporting Programs. In fact, Peter and Jason each have over 10 years of experience as special review committee members for these programs and Peter is a past employee of the GFOA Technical Service Center where both municipal and school district audit reports are reviewed for program compliance.

## **CULTURE**

Why is the culture within our firm important to our clients? Culture picks up where the handbook leaves off. It guides us in how our staff interact with each other on a daily basis and now we interact with our clients. Our firm knows that no one person has all the answers. We will be learning from your organization during the performance of the proposed audits and we believe that the information and techniques we will share with your staff will provide your organization with significant knowledge and hopefully, some efficiency gains. While we do not know the entire extent of possible efficiency gains, our specialization in working with the governmental community has proven time and time again that through our specialization Vredeveld Haefner LLC and our clients benefit.

At Vredeveld Haefner LLC we are constantly searching for a better way of performing every task necessary to complete an engagement and manage our business. This search is guided by over fifty years of experience in the government industry, analysis of performance on each engagement, timely comprehensive continuing professional development, and learning from and sharing with our peers and clients.

Staff quality, retention and consistency on each engagement are important to engagement performance, efficiency and profitability. We will staff your audit with consistent staff from year to year as within our control. The County shall have the right to approve or reject replacements.

We are committed to providing you with a level of service that makes us unique. **How do we accomplish this?** Through technical training and the culture we maintain in our firm; both of which drive how we interact with our clients and enable us to provide the superior services our clients expect.

## **PRIOR ENGAGEMENTS WITH THE COUNTY OF OTSEGO**

Our firm has had no prior engagements with Otsego County.

## SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENTAL ENTITIES

Our experience in providing the proposed services is impressive. Our Grand Rapids firm conducted over 50 audits of local units of government in 2018. A complete list of our current governmental clients is included in the attachments; current audit engagements similar to the Otsego County, along with contact information, includes:

### Ottawa County

Services Provided	Financial Audit, Single Audit, GFOA CAFR
Current Client Since	2007 (7 separate audit reports issued, 830 total hours)
Engagement Team	Doug Vredeveld   Peter Haefner   Matt Smith   Mike Vredeveld
Client Contact	Karen Karasinski, Finance Director   (616) 738-4849

### Grand Traverse County

Services Provided	Financial Audit, Single Audit, GFOA CAFR
Current Client Since	2017 (3 separate audit reports issued, 590 total hours)
Engagement Team	Peter Haefner   Doug Vredeveld
Client Contact	Dean Bott, Finance Director   (231) 922-4680

### City of Traverse City

Services Provided	Financial Audit
Current Client Since	2016 (3 separate audit reports, 310 hours)
Engagement Team	Doug Vredeveld   Matt Smith   Mike Vredeveld
Client Contact	Brian Postma, Finance Coordinator   (231) 922-4411

### City of Mt. Pleasant

Services Provided	Financial Audit, GFOA CAFR
Current Client Since	2008 (1 audit report, 150 hours)
Engagement Team	Doug Vredeveld   Matt Smith   Mike Vredeveld   Peter Haefner
Client Contact	Mary Ann Kornexl, Finance Director   (989) 779-5381

### Muskegon County

Services Provided	Audit Preparation, GFOA CAFR
Current Client Since	2011 (110 hours)
Engagement Team	Peter Haefner   Matt Smith
Client Contact	Dwight Avery, Finance Director   (231) 724-6205

## SPECIFIC AUDIT APPROACH

Our firm has a quality control system which meets applicable professional standards and we are confident in the quality of work performed by Vredeveld Haefner LLC.

The significant components of this system, as they relate to your audit, are as follows:

- The firm utilizes standardized forms and templates to ensure that engagements are properly planned, performed, supervised, reviewed, documented and reported in accordance with professional, regulatory and internal requirements.
- Specialized audit programs are utilized on all engagements.
- All workpapers and audit programs are reviewed by the engagement partner.
- A financial statement disclosure checklist is completed on each engagement to ensure all appropriate disclosures have been considered.
- The financial statements and other reports are reviewed by the engagement partner and the concurring partner for format and presentation compliance with all applicable professional guidance and technical pronouncements.
- Workpapers are retained in accordance with professional standards and relevant regulation.

Through our internal review process, we are able to assure our clients that their financial reports have been subjected to a stringent verification of technical compliance, reporting excellence and that the financial statements contain all of the disclosures required by accounting and reporting standards.

We understand the scope of work to be as follows:

- Audit of Otsego County's financial statements
- Assistance with preparation of Otsego County's financial statements
- Written communications in accordance with professional standards
- Presentation to the County Budget and Finance Committee

The format and presentation of the financial statements will conform to the applicable standards established by the Governmental Accounting Standards Board (GASB) and the Michigan Department of Treasury. We will conduct our audits in accordance with the auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, where applicable.

## PROPOSED TIMING

Below is our not to exceed timeframe for completion of the services itemized in this proposal. We are flexible in modifying the timing of the deadlines to accommodate your schedule should the need arise.

Step	Hours			Date
	Partner	Sr. Mngr.	Staff	
Entrance conference with the Finance Director and Budget and Finance Committee Chair (including delivery of a detailed audit plan and listing of audit schedules to be prepared by County staff)	6	2	2	April 1, 2020
Progress conference with Finance Director and County Administrator	-	-	-	As necessary
Perform final engagement planning and interim procedures	8	8	40	April 2020
Perform final fieldwork	50	70	60	April 2020
Exit conference with Budget and Finance Committee	6	2	2	May 1, 2020
Deliver draft audit documents	20	8	16	May 15, 2020
Presentation of draft audited financial statement to Budget and Finance Committee	4	-	-	May 20, 2020
Issue final audit documents	2	-	-	May 31, 2019

## SPECIFIC PROCESS

We will complete our work in three phases: preliminary fieldwork (planning), year-end final fieldwork, and wrap-up (document completion, review and issuance). The details of each phase are discussed below.

**Planning** – We will conduct an initial entrance conference planning meeting with County staff shortly before the start of the audit each year. During this meeting, we will identify the information needed for the audit, schedule the dates of our on-site fieldwork and identify any issues which will require special attention during the audit process. Following our meeting, we will gather and analyze information to gain an understanding of the County's structure, operating environment, internal controls and financial activity to-date. This process will include documentation of internal controls and performance of related walkthroughs of key internal controls, analysis of current year operations, review of minutes, inquiries of staff and Board members, review of attorney invoices and review of the audit guides and compliance supplements as they relate to the County. This process will provide us with a basis for our audit risk assessment as it relates to the County's overall operating environment. The results of the audit risk assessment will guide our team in identifying the significant audit areas and the substantive procedures to be performed in each audit area. We will then create audit programs that correlate with our risk assessments and necessary testing of legal compliance. Legal compliance with laws and regulation is considered throughout the audit process from budgetary compliances to allowable costs. Our compliance testing will be based on known law, Michigan Department of Treasury guidance and select federal program guidance.

Once the County has recorded the necessary adjusting journal entries to close out the fiscal year, we will obtain a copy of the County's general ledger to prepare the draft financial statements. Drafting the financial statements and schedules prior to conducting the audit has

several advantages. First, detail of account balances included in financial statement account captions can be easily reviewed and analyzed during the audit process. Secondly, it increases our efficiency by allowing us to focus our audit procedures at the financial statement level of detail upon which our opinion is expressed.

Prior to the start of final fieldwork, we will also obtain an electronic download of the general ledger detail for the fiscal year. This transaction-level detail provides significant efficiencies for both our firm and the County during the audit process by enabling us to analyze all transactions making up each account balance and ultimately all activity within a financial statement caption. It also enables us to select samples, reconcile revenues and expenditures associated with the financial statements and independently review transactions for unusual activity without obtaining other specific detailed reports from the County.

**Final Fieldwork** – Our team will be on-site at your location to conduct the engagement fieldwork. We plan to complete the entire audit process while at your location which essentially eliminates the need for subsequent follow-up to resolve open issues. Giving consideration to all of the information gathered during the other planning procedures, we will quantify materiality by opinion unit and finish all remaining planning documentation.

The detailed account level balances used to create the draft financial statements will be used to prepare audit lead schedules. A typical financial audit applies analytical and/or substantive procedures to the balance sheet captions such as cash and cash equivalents, receivables, capital assets, accounts payable and other liabilities. The quantity and type of testing performed during the engagement will be based on our risk assessments of the respective account types and applicable assertions combined with our understanding and documentation of your internal controls performed during planning. Our samples will be selected judgmentally, statistically or haphazardly from respective population of items to be tested. Sample sizes generally range from 1 to 40 based on risk assessment and account balances being tested.

Revenues and expenditures are tested analytically and/or through reconciliation or other substantive procedures. Analytical procedures may include comparison of budget, actual and prior year balances using quantified materiality as a measurement tool and comparison of County balances to industry benchmarks. Substantive procedures may include recalculation of charges for services with amounts reconciled to the County's general ledger. We use a risk-based audit approach which includes consideration of both grant requirements and Michigan Department of Treasury compliance. As noted above, we plan our testing based on risk assessments however those preliminary assessments may change during the course of the fieldwork process which may result in a modification to the originally planned audit approach.

**Wrap-up** – As the final fieldwork procedures are completed, the workpapers will be reviewed as part of our internal system of quality control. All comments and issues generated by these reviews will be resolved while we are on-site. Also, while we are on-site, the notes to the financial statements will be completed and all quality control audit programs and checklists will be finished and reviewed. At the completion of fieldwork, we will meet with your management team to discuss the results of our fieldwork and any findings or recommendations that arose during the audit process.

We will perform an internal quality control review of the draft financial statements and provide a copy of the audit report and documents to management for your review. Upon completion of your review, any necessary modifications will be made to the report and/or documents. We will then finalize, reproduce, assemble/bind and deliver the audit report and documents in accordance with your timing requirements.

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## IDENTIFICATION OF ANTICIPATED POTENTIAL AUDIT PROBLEMS

Based on our understanding of the scope of the proposed engagement and our knowledge of current and proposed changes to generally accepted accounting principles and auditing standards, we are not aware of any issues that will require substantial additional consideration during the audit process except for the implementation of new accounting standards as they become effective. If a specific matter does come to our attention during the course of the engagement, we will discuss it with you promptly to reach a mutually agreeable resolution.

## REPORT FORMAT

As noted earlier we are very familiar with general accepted accounting principle which provide a myriad of financial statement presentation alternatives. We plan to use our knowledge and experience to guide you in identifying your preferred financial statement presentation. You can choose for your statements to appear nearly identical to your 2018 financial statements or we can advise you on potential alternatives for format and presentations of your financial information. While our alternatives will continue to meet generally accepted accounting principles you may find that an optional presentation may be more effective in communicating Otsego County's financial information. Sample financial statements we have prepared for every governmental unit that we audit (listing attached) are available for multiple years on the Michigan Department of Treasury website for your review at <https://treas-secure.state.mi.us/LAFDocSearch/>.

**ATTACHMENTS**

## PEER REVIEW REPORT



5820 N. Canton Center, Suite 165  
Canton, Michigan 48187  
734-414-7620  
email: ringocpa@ringocpas.com

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### System Review Report

October 25, 2016

To the Shareholders of Vredeveld Haefner LLC  
and the Peer Review Committee of the Michigan Association of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Vredeveld Haefner LLC. (the firm) in effect for the year ended June 30, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, an engagement selected for review included an audit of an employee benefit plan and engagements performed under *Governmental Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Vredeveld Haefner LLC in effect for the year ended June 30, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Vredeveld Haefner LLC has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads "Ringo & Associates, PC".  
Ringo & Associates, PC

## CLIENT LISTING

The following is a listing of our current audit services governmental clients grouped by municipality type.

### AUDIT SERVICES

<p><b>COUNTIES</b> Ottawa County Ottawa County Central Dispatch Authority Ottawa County Drain Commission Ottawa County Insurance Authority Ottawa County Public Utilities West Michigan Enforcement Team Emmet County Grand Traverse County</p> <p><b>CITIES</b> City of Belding City of Carson City City of Cedar Springs City of East Grand Rapids City of Grand Haven City of Grandville City of Greenville City of Ionia City of Kentwood City of Lowell City of Mount Pleasant City of Muskegon Heights City of Norton Shores City of Pottersville City of Reed City City of Rockford City of South Haven City of Traverse City City of Walker City of Whitehall</p> <p><b>TOWNSHIPS</b> Cascade Charter Township Comstock Charter Township Georgetown Charter Township Grand Haven Charter Township Jamestown Charter Township Martin Township Plainfield Charter Township St. James Township Texas Charter Township</p>	<p><b>VILLAGES</b> Village of Spring Lake Village of Suttons Bay</p> <p><b>EDUCATION</b> Cedar Springs Public Schools Godfrey-Lee Public Schools Greenville Public Schools Montague Area Public Schools Muskegon Heights Public School Academy Ravenna Public Schools Walkerville Public Schools Success Virtual Learning Centers of Michigan</p> <p><b>ROAD COMMISSIONS</b> Ottawa County Road Commission Grand Traverse County Road Commission</p> <p><b>TRANSPORTATION PLANNING</b> Grand Valley Metropolitan Council Macatawa Area Coordinating Council</p> <p><b>LIGHT &amp; POWER</b> Grand Haven Board of Light &amp; Power Traverse City Board of Light &amp; Power Lowell Light and Power</p> <p><b>LIBRARIES</b> Allegan District Library Lake Odessa Community Library Loutit District Library Reed City Area District Library Tamarack District Library White Pine District Library</p> <p><b>OTHER SPECIAL-PURPOSE</b> South Haven Area Emergency Services Grand Haven Harbor Transit System White Lake Ambulance Authority Grand Haven-Spring Lake Sewer Authority Northwest Ottawa Water System North Kent Sewer Authority Ionia Regional Utility Authority West Michigan Regional Water Authority Cedar Springs Area Parks and Recreation South Haven Area Recreation Authority Montcalm County Central Dispatch Authority</p>
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The following is a listing of our current non-audit and/or consulting services governmental clients.

### **OTHER SERVICES PROVIDED**

City of Douglas  
City of Hudsonville  
City of Wyoming  
Holland Board of Public Works  
Kalamazoo Regional Water Authority  
Muskegon Area Transit System  
Muskegon County  
Spring Lake Township  
Village of Middleville  
Village of Sand Lake  
Western Michigan Health Insurance Pool

Some examples of the other types of professional services we are able to offer include:

- Controller by the hour
- Cost allocation plan development or review
- Review of internal controls
- Cash flow analysis
- Financial projection models
- Development of comprehensive operating budgets
- Agreed-upon-procedures customized to meet specific needs



**Doug Vredeveld, CPA, CGFM**  
**Partner**

With over 25 years of public accounting experience servicing the governmental and nonprofit community, Doug is also a Certified Government Financial Manager which demonstrates skills in areas such as accounting, auditing, budgeting, internal controls and financial reporting of governmental entities. Prior to being a founding partner of Vredeveld Haefner LLC, Doug was a Principal at a large regional firm where he led the West Michigan governmental and nonprofit practice. He has been responsible for overseeing approximately 40 governmental and 30 nonprofit audits annually ranging in size from small entities with a single fund to complex counties with multiple major federal programs.

**EDUCATION**

GRAND VALLEY STATE UNIVERSITY  
Bachelors of Business Administration with a major in Accounting

**AFFILIATIONS**

American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants  
Association of Governmental Accountants  
Hospitality Finance and Technology Professionals

**CONTACT INFORMATION**

Phone (616) 446-7474  
Email [dvredeveld@vh-cpas.com](mailto:dvredeveld@vh-cpas.com)



**Peter Haefner, CPA**  
**Partner**

With over 25 years of experience in the governmental industry, Peter has been conducting governmental and nonprofit audits for over 20 years. Prior to being a founding partner of Vredeveld Haefner LLC, he was with a large regional firm where he managed governmental and nonprofit engagements. Peter also has experience as the Accounting and Financial Reporting Manager for the State of Wyoming, Assistant Finance Director for the City of Muskegon and as a Program Associate for the Government Finance Officers Association's prestigious Certificate of Achievement program. Peter is also able to provide a unique understanding of governmental operations due to his involvement as a past two-term Board of Education member for Lowell Area Schools. In addition, Peter is an adjunct instructor at Hope College and a frequent speaker on current topics for the MACPA, MMTA and various other regional organizations.

**EDUCATION**

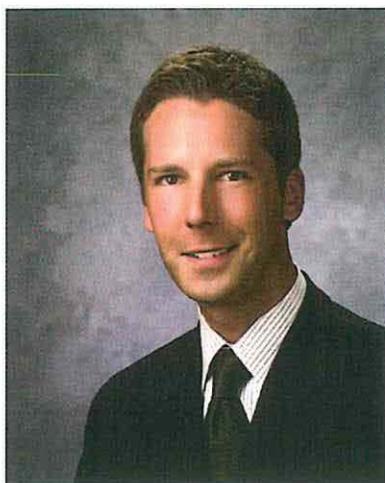
SAGINAW VALLEY STATE UNIVERSITY  
Bachelors of Business Administration with a major in Accounting

**AFFILIATIONS**

American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants  
Kent County Treasurer's Association

**CONTACT INFORMATION**

Phone (616) 460-9388  
Email [phaefner@vh-cpas.com](mailto:phaefner@vh-cpas.com)



**Jason Mitchell, CPA  
Senior Manager**

With over 19 years of experience in auditing and consulting, Jason has devoted his entire career to serving the governmental and nonprofit industry. He spent the first 11 years of his public accounting career at a national firm working with local units of government and nonprofit organizations in addition to 4 years at a local firm where he was responsible for the firm's governmental audit services before joining Vredeveld Haefner LLC as a senior manager. Jason is currently the Immediate Past President of the Ferris State University Alumni Association Board of Directors.

**EDUCATION**

**FERRIS STATE UNIVERSITY**

Bachelor of Science with a major in Accounting and a minor in Computer Information Systems

**VISION INTERNATIONAL UNIVERSITY**

Associate of Biblical Studies

**AFFILIATIONS**

American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountant  
GFOA Special Review Committee - Certificate of Excellence  
Ferris State University Alumni Association Board of Directors  
Ferris State University Distinguished Alumni Awards Committee  
Make-A-Wish Michigan  
Street Light Ministries  
The Edge

**CONTACT INFORMATION**

Phone (616) 460-9393  
Email [jmitchell@vh-cpas.com](mailto:jmitchell@vh-cpas.com)

APPENDIX B

PROPOSER GUARANTEES

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

Signature of Official:

A handwritten signature in black ink, appearing to read "D. Vredeveld", written in a cursive style.

Name: Doug Vredeveld

Title: Partner

Firm: Vredeveld Haefner LLC

Date: 12/30/19

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 \$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: Doug Vredeveld

Title: Partner

Firm: Vredeveld Haefner LLC

Date: 12/30/19



**SEALED DOLLAR COST BID TO  
PROVIDE PROFESSIONAL AUDITING SERVICES TO**

**OTSEGO COUNTY**

**INDEPENDENT AUDIT SERVICES**

**DECEMBER 30, 2019**

Vredeveld Haefner LLC proposes a total all-inclusive bid to provide the noted services of as follows for 2019 and the optional subsequent fiscal years:

	<b>County fiscal year ended December 31,</b>			
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Financial statement audit	\$31,170	\$31,650	\$32,100	\$32,700
Single audit when required	3,250	3,250	3,250	3,500
Consent let when requested	750	750	750	750

Doug Vredeveld is entitled to represent Vredeveld Haefner LLC, empowered to submit this bid, and authorized to sign a contract with the County of Otsego.

Vredeveld Haefner LLC



Douglas J. Vredeveld  
Partner

**VREDEVELD HAEFNER LLC**  
10302 20<sup>TH</sup> AVENUE  
GRAND RAPIDS, MI 49534



APPENDIX D

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES  
FOR THE AUDIT YEAR 2019 FINANCIAL STATEMENTS

	<u>Hours</u>	Standard Hourly <u>Rate</u>	Quoted hourly <u>rate</u>	<u>Total</u>
Partner	96	\$ 150	\$ 130	\$ 12,480
Sr. Manager	90	135	105	9,450
Staff	120	95	75	9,000
Admin Staff	6	50	40	240
Total all-inclusive maximum price for 2019 financial statement audit				<u>\$ 31,170</u>

**Fee for additional services if requested as identified in section II E**

Fee for 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. \$ 2,750

Fee per bond issue to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters." \$250

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

Additional services requested by the County will be billed at our standard hourly rates.

APPENDIX D

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES  
FOR THE AUDIT YEAR 2020 FINANCIAL STATEMENTS

	<u>Hours</u>	Standard Hourly <u>Rate</u>	Quoted hourly <u>rate</u>	<u>Total</u>
Partner	96	\$ 150	\$ 130	\$ 12,480
Sr. Manager	90	135	105	9,450
Staff	120	95	75	9,000
Admin Staff	6	50	40	240
Total all-inclusive maximum price for 2020 financial statement audit				<u>\$ 31,170</u>

**Fee for additional services if requested as identified in section II E**

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Fee per bond issue to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters." \$250

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

Additional services requested by the County will be billed at our standard hourly rates.

APPENDIX D

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES  
FOR THE AUDIT YEAR 2021 FINANCIAL STATEMENTS

	<u>Hours</u>	Standard Hourly <u>Rate</u>	Quoted hourly <u>rate</u>	<u>Total</u>
Partner	96	\$ 150	\$ 130	\$ 12,480
Sr. Manager	90	135	105	9,450
Staff	120	95	75	9,000
Admin Staff	6	50	40	240
Total all-inclusive maximum price for 2021 financial statement audit				<u>\$ 31,170</u>

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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

Additional services requested by the County will be billed at our standard hourly rates.

APPENDIX D

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES  
FOR THE AUDIT YEAR 2022 FINANCIAL STATEMENTS

	<u>Hours</u>	Standard Hourly <u>Rate</u>	Quoted hourly <u>rate</u>	<u>Total</u>
Partner	96	\$ 150	\$ 130	\$ 12,480
Sr. Manager	90	135	105	9,450
Staff	120	95	75	9,000
Admin Staff	6	50	40	240
Total all-inclusive maximum price for 2022 financial statement audit				<u>\$ 31,170</u>

**Fee for additional services if requested as identified in section II E**

Fee for 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. \$ 2,750

Fee per bond issue to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters." \$250

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

Additional services requested by the County will be billed at our standard hourly rates.