

Otsego County,
Michigan



Year Ended
December 31,
2017

Financial
Statements

OTSEGO COUNTY, MICHIGAN

ELECTED OFFICERS

For the Year Ended December 31, 2017

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

June 28, 2018

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, 2017, 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 90 percent, 90 percent, and 68 percent, respectively, of the assets and deferred outflows, net position, and revenues of the aggregate discretely presented component units. We did not audit the financial statements of the Otsego County Commission on Aging, a discretely presented component unit, which represents 2 percent, 3 percent, and 12 percent, respectively, of the assets and deferred outflows, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Otsego County Road Commission and Otsego County Commission on Aging is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Otsego County Commission on Aging were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Otsego County, Michigan*, as of December 31, 2017, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Transfer of Operations

As described in Note 22 to the financial statements, the operations of the University Center transferred to Kirtland Community College on January 1, 2017. The County maintains a special revenue University Center fund for collection of the tax millage and payment on the University Center building bond. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

As management of Otsego County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Key metrics and financial highlights of the County for the year ended December 31, 2017 are as follows:

Total net position	\$33,482,014
Unrestricted net position	8,623,618
Change in net position	2,147,536
Fund balances, governmental funds	15,954,430
Change in fund balances, governmental funds	3,994,206
Fund balance, general fund	4,868,675
(as percentage of general fund expenditures and transfers out)	61%
Unassigned fund balance, general fund	4,693,890
(as percentage of general fund expenditures and transfers out)	59%

Overview of the Financial Statements

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

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

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

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

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

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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 Fund, M-Tec Fund, and Debt Service Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Delinquent Tax Revolving Fund, Bus System, and Airport, which are considered to be major funds of the County as well as the aggregate of the nonmajor enterprise funds. The County maintains several types of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its delinquent tax, tax foreclosure, bus system, airport special events, global positioning system, university center metropolitan area network, homestead audit, 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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$33,482,000 at the close of the most recent fiscal year. A portion of the County's net position represents its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Net Position

Net investment in capital assets is approximately 44% of total net position. An additional portion of the County's net position, approximately 30%, represents resources that are subject to external restrictions on how they may be used. Restricted net position has constraints placed on it by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. The unrestricted portion of the County's net position is 26%. This net position may be used to meet the government's ongoing obligations to citizens and creditors.

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

The County's total net position increased approximately 7%, or approximately \$2,148,000 to approximately \$33,482,000 for the year ended December 31, 2017.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 23,309,551	\$ 18,413,194	\$ 9,278,750	\$ 9,326,332	\$ 32,588,301	\$ 27,739,526
Capital assets, net	10,644,933	9,853,602	6,941,708	7,450,081	17,586,641	17,303,683
Total assets	33,954,484	28,266,796	16,220,458	16,776,413	50,174,942	45,043,209
Deferred outflows of resources						
Deferred pension amounts	2,247,729	2,626,420	362,472	544,221	2,610,201	3,170,641
Liabilities						
Long-term debt	3,586,425	2,038,770	-	-	3,586,425	2,038,770
Other liabilities	10,859,610	11,059,014	802,940	1,040,638	11,662,550	12,099,652
Total liabilities	14,446,035	13,097,784	802,940	1,040,638	15,248,975	14,138,422
Deferred inflows of resources						
Taxes levied for a subsequent period	3,676,796	2,740,950	-	-	3,676,796	2,740,950
Deferred pension amounts	179,383	-	197,975	-	377,358	-
Total deferred inflows	3,856,179	2,740,950	197,975	-	4,054,154	2,740,950
Net position						
Net investment in capital assets	7,936,598	8,711,289	6,941,708	7,450,081	14,878,306	16,161,370
Restricted	9,980,090	5,470,088	-	-	9,980,090	5,470,088
Unrestricted	(16,689)	873,105	8,640,307	8,829,915	8,623,618	9,703,020
Total net position	\$ 17,899,999	\$ 15,054,482	\$ 15,582,015	\$ 16,279,996	\$ 33,482,014	\$ 31,334,478

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 2,176,080	\$ 2,283,073	\$ 1,864,859	\$ 1,768,953	\$ 4,040,939	\$ 4,052,026
Operating grants	3,774,437	2,696,643	1,341,465	957,362	5,115,902	3,654,005
Capital grants	64,830	36,316	-	-	64,830	36,316
General revenues:						
Property taxes	8,503,537	7,084,184	293,501	284,610	8,797,038	7,368,794
Interest and rentals	264,373	289,628	143,524	30,922	407,897	320,550
Other	2,335,034	1,615,023	202,457	297,972	2,537,491	1,912,995
Total revenues	17,118,291	14,004,867	3,845,806	3,339,819	20,964,097	17,344,686
Expenses						
Legislative	216,112	215,808	-	-	216,112	215,808
Judicial	1,801,679	1,941,671	-	-	1,801,679	1,941,671
General government	4,300,820	3,494,065	-	-	4,300,820	3,494,065
Public safety	3,877,185	4,126,567	-	-	3,877,185	4,126,567
Public works	374,310	154,652	-	-	374,310	154,652
Health and welfare	1,266,892	1,378,421	-	-	1,266,892	1,378,421
Community & economic development	1,375,521	1,337,303	-	-	1,375,521	1,337,303
Recreation and culture	1,243,739	1,525,880	-	-	1,243,739	1,525,880
Interest - unallocated	69,902	78,614	-	-	-	78,614
Delinquent tax revolving	-	-	177,981	547,768	177,981	547,768
Bus System	-	-	1,867,037	1,954,767	1,867,037	1,954,767
Airport	-	-	1,707,350	1,524,185	1,707,350	1,524,185
Other business-type activities	-	-	370,998	342,847	370,998	342,847
Total expenses	14,526,160	14,252,981	4,123,366	4,369,567	18,579,624	18,622,548
Change in net position, before contributions and transfers	2,592,131	(248,114)	(277,560)	(1,029,748)	2,384,473	(1,277,862)
Contribution to other governmental units	(153,900)	-	-	-	(153,900)	-
Transfers	407,286	184,149	(420,421)	(184,149)	(13,135)	-
Change in net position	2,845,517	(63,965)	(697,981)	(1,213,897)	2,147,536	(1,277,862)
Net position:						
Beginning of year	15,054,482	15,118,447	16,279,996	17,493,893	31,334,478	32,612,340
End of year	\$ 17,899,999	\$ 15,054,482	\$ 15,582,015	\$ 16,279,996	\$ 33,482,014	\$ 31,334,478

Governmental activities

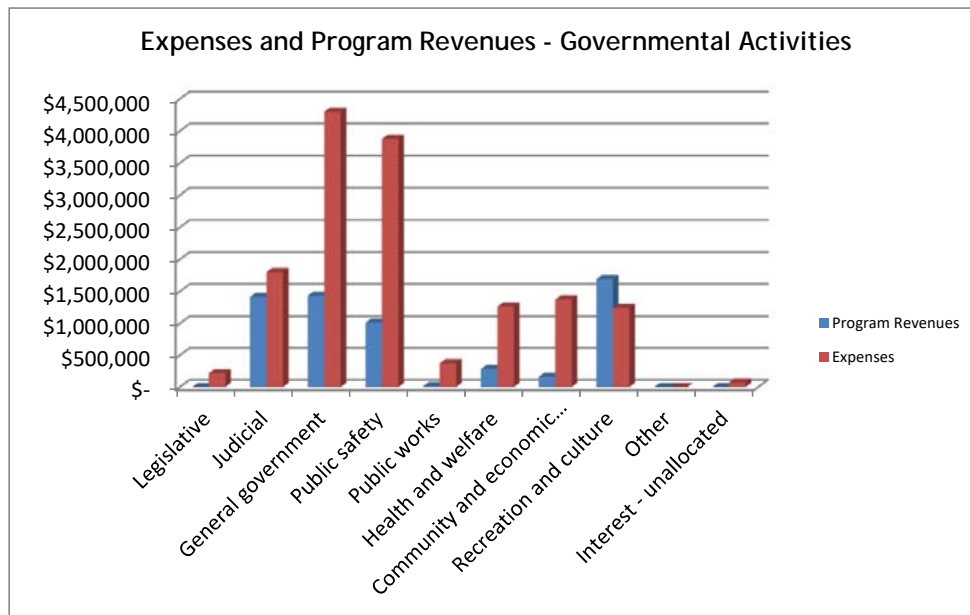
Governmental activities increased the County's net position by approximately \$2,846,000. Overall revenues increased by approximately \$3,113,000. The most significant increase in revenues was from property taxes, by approximately \$1,419,000, primarily due to an increase in taxable value and a new millage of .3750 passed for the Otsego County Library Building project. The other significant increase in revenues is due to the new special revenue fund to account for the University Center, which was previously a component unit. Expenses increased by approximately \$273,000. The most significant increase was in the general government function primarily due to an increase of approximately \$428,000 from the inclusion of the University Center as a special revenue fund which was offset by decreases in public safety and recreation due to fewer repairs and maintenance expenses.

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

Governmental activities consist primarily of:

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



Business-type activities

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

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

Financial Analysis of the County's Funds

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

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. In 2017 unassigned fund balance represented 30% of annual government expenditures in the governmental funds.

The fund balance of the General Fund increased by approximately \$249,000 from the prior year. The increase in fund balance is primarily attributable to the increase of tax revenue by approximately \$393,000 for fiscal year 2017. Unassigned fund balance of approximately \$4,694,000, is available for spending at the County's discretion.

The County's Housing Commission Special Revenue Fund fund balance at December 31, 2017 was approximately \$150,000; a decrease of approximately \$2,000 from the prior year. The change in fund balance is primarily attributable to a decrease in federal funding by approximately \$79,000, which was offset by an increase in other revenue reimbursements of approximately \$84,000.

The County's M-TEC Special Revenue Fund fund balance at December 31, 2017 was \$0 which decreased approximately \$100 from the prior year. Revenues and expenditures increased by approximately \$22,000 from the previous year with minimal fluctuations from the final budget.

The County's Debt Service Fund fund balance at December 31, 2017 remained at \$0 for the 2017 fiscal year.

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

Unrestricted net position of the enterprise funds at year end amounted to approximately \$8,640,000. The enterprise funds had a decrease in net position for the year of approximately \$698,000, due primarily to the transfer out of approximately \$373,000 from the Delinquent Tax Revolving fund used for various items.

Unrestricted net position of the internal service funds at year end amounted to approximately \$507,000. The internal service funds had a decrease in net position for year of approximately \$8,000.

Budgetary Highlights

General Fund - The increase between the original and final amended budgets of revenue in the General Fund was a 3.06 percent increase.

The change between the original and final amended budgets of expenditures in the General Fund resulted in a 4.53 percent increase.

Overall during the year, General Fund revenues were in line with the budgetary estimates and came in lower than anticipated by approximately \$74,000 or .9 percent. Overall expenditures were under budget by approximately \$623,000 or 8.1 percent. This is a result of a planned additional pension contribution not made and a budgeted other contingency not used.

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

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	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,282,072	\$ 2,227,138	\$ 99,998	\$ 99,998	\$ 2,382,070	\$ 2,327,136
Construction in progress	522,956	146,867	-	16,500	522,956	163,367
Buildings	5,700,422	5,493,694	1,322,856	1,428,357	7,023,278	6,922,051
Furniture and fixtures	129,635	90,887	-	-	129,635	90,887
Equipment	1,752,442	1,647,593	92,329	106,629	1,844,771	1,754,222
Vehicles	237,245	225,265	102,807	223,569	340,052	448,834
Infrastructure	20,161	22,158	5,323,718	5,575,028	5,343,879	5,597,186
Total capital assets, net	\$10,644,933	\$ 9,853,602	\$ 6,941,708	\$ 7,450,081	\$17,586,641	\$17,303,683

Construction in progress for the 2017 fiscal year was in the amount of approximately \$523,000 for the Library Building expansion project and the Sportsplex Tennis Court. Additionally there was approximately \$250,000 in additions for business type activities related to the Taxilane project. The remaining additions consisted of furniture, vehicles and building improvement.

Long-term Debt. At the end of the current year, the County had total installment debt and compensated absences outstanding of \$3,586,425.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Installment debt	\$ 3,398,335	\$ 1,867,313	\$ -	\$ -	\$ 3,398,335	\$ 1,867,313
Compensated absences	170,542	171,457	-	-	170,542	171,457
Total	\$ 3,568,877	\$ 2,038,770	\$ -	\$ -	\$ 3,568,877	\$ 2,038,770

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

The County is required to report the actuarially computed liability for Other Postemployment Healthcare Benefits (OPEB). The total actuarial accrued liability is approximately \$1,931,000. If the County were required to fund that liability the estimated annual contribution would be approximately \$151,000. The net OPEB obligation at the end of the fiscal year amounted to approximately \$2,211,000. This is a significant liability; however, due to changes in benefit levels for new employees, this liability is anticipated to decrease over time.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the County's 2018 budget:

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

OTSEGO COUNTY, MICHIGAN

Management's Discussion and Analysis

Highlight of the 2018 budget is as follows:

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Statement of Net Position

December 31, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 9,082,136	\$ 1,422,205	\$ 10,504,341	\$ 2,594,833
Investments	6,773,892	6,136,792	12,910,684	1,932,664
Receivables, net	6,345,813	1,386,462	7,732,275	3,908,132
Internal balances	(27,881)	27,881	-	-
Prepaid items	159,045	19,471	178,516	604
Inventory	17,180	45,939	63,119	669,810
Advance to component unit	269,366	240,000	509,366	-
Lease receivable from component unit	690,000	-	690,000	-
Capital assets not being depreciated	2,805,028	99,998	2,905,026	10,894,984
Capital assets being depreciated, net	7,839,905	6,841,710	14,681,615	24,699,554
Total assets	33,954,484	16,220,458	50,174,942	44,700,581
Deferred outflows of resources				
Deferred pension amounts	2,247,729	362,472	2,610,201	591,103
Liabilities				
Accounts payable and accrued liabilities	651,661	225,105	876,766	555,776
Advances from other government units	-	-	-	412,175
Unearned revenue	200,572	-	200,572	31,707
Advance from primary government	-	-	-	509,366
Long-term debt				
Due within one year	658,402	-	658,402	543,810
Due in more than one year	2,928,023	-	2,928,023	1,742,038
Net pension liability	7,796,345	577,835	8,374,180	5,074,074
Net other postemployment benefits obligation	2,211,032	-	2,211,032	8,718,698
Total liabilities	14,446,035	802,940	15,248,975	17,587,644
Deferred inflows of resources				
Taxes levied for a subsequent period	3,676,796	-	3,676,796	2,331,530
Deferred pension amounts	179,383	197,975	377,358	-
Other state grants	-	-	-	446,430
Total deferred inflows	3,856,179	197,975	4,054,154	2,777,960
Net position				
Net investment in capital assets	7,936,598	6,941,708	14,878,306	33,608,449
Restricted (Note 20)	9,980,090	-	9,980,090	44,000
Unrestricted (deficit)	(16,689)	8,640,307	8,623,618	(8,726,369)
Total net position	\$ 17,899,999	\$ 15,582,015	\$ 33,482,014	\$ 24,926,080

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

OTSEGO COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 216,112	\$ -	\$ -	\$ -	\$ (216,112)
Judicial	1,801,679	544,474	870,646	-	(386,559)
General government	4,300,820	514,503	870,056	50,000	(2,866,261)
Public safety	3,877,185	862,689	150,046	-	(2,864,450)
Public works	374,310	222	-	14,830	(359,258)
Health and welfare	1,266,892	-	284,419	-	(982,473)
Community and economic development	1,375,521	28,500	133,017	-	(1,214,004)
Recreation and culture	1,243,739	225,692	1,466,253	-	448,206
Interest - unallocated	69,902	-	-	-	(69,902)
Total governmental activities	14,526,160	2,176,080	3,774,437	64,830	(8,510,813)
Business-type activities:					
Delinquent tax revolving	177,981	337,222	-	-	159,241
Bus System 9/30/2017	1,867,037	343,779	985,215	-	(538,043)
Airport	1,707,350	849,979	356,250	-	(501,121)
Other business-type activities	370,998	333,879	-	-	(37,119)
Total business-type activities	4,123,366	1,864,859	1,341,465	-	(917,042)
Total primary government	\$ 18,649,526	\$ 4,040,939	\$ 5,115,902	\$ 64,830	\$ (9,427,855)
Component units					
Road Commission	\$ 8,013,909	\$ 2,229,510	\$ 3,877,081	\$ 3,046,218	\$ 1,138,900
Ambulance	2,777,590	1,707,254	-	-	(1,070,336)
Commission on Aging 9/30/2017	1,712,941	58,736	428,778	-	(1,225,427)
Sportsplex	855,101	398,172	-	-	(456,929)
Total component units	\$ 13,359,541	\$ 4,393,672	\$ 4,305,859	\$ 3,046,218	\$ (1,613,792)

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expenses	\$ (8,510,813)	\$ (917,042)	\$ (9,427,855)	\$ (1,613,792)
General revenues (expense):				
Property taxes	8,503,537	293,501	8,797,038	1,931,507
Interest and rentals	264,373	143,524	407,897	2,032
Other revenue	2,335,034	202,457	2,537,491	1,241,503
Gain on sale of capital assets	-	-	-	16,800
Contribution to other governmental units	(153,900)	-	(153,900)	-
Transfers	407,286	(420,421)	(13,135)	-
Total general revenues and transfers	11,356,330	219,061	11,575,391	3,191,842
Change in net position	2,845,517	(697,981)	2,147,536	1,578,050
Special items				
Transfer of operations (Note 22)	-	-	-	(1,205,091)
Net position, beginning of year	15,054,482	16,279,996	31,334,478	24,553,121
Net position, end of year	\$ 17,899,999	\$ 15,582,015	\$ 33,482,014	\$ 24,926,080

Concluded

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

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FUND FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Balance Sheet

Governmental Funds

December 31, 2017

	General Fund	Housing Commission Special Revenue Fund	M-TEC Special Revenue Fund
Assets			
Cash and cash equivalents	\$ 1,501,715	\$ 210,592	\$ -
Investments	3,181,541	-	-
Receivables:			
Accounts	62,307	-	-
Property taxes	230,416	-	797,153
Due from other governments	128,770	-	-
Loans	-	1,637,791	-
Advances to other funds	-	-	-
Advances to component units	-	-	-
Lease receivable from component unit	-	-	-
Inventories	16,855	-	-
Other assets	7,930	-	-
Total assets	\$ 5,129,534	\$ 1,848,383	\$ 797,153
Liabilities			
Accounts payable	\$ 194,702	\$ 129	\$ -
Accrued liabilities	45,532	484	-
Due to other funds	-	60,000	-
Due to other governments	-	-	-
Unearned revenue	-	-	-
Total liabilities	240,234	60,613	-
Deferred inflows of resources			
Taxes levied for a subsequent period	20,625	-	797,153
Unavailable resources	-	1,637,791	-
Total deferred inflows of resources	20,625	1,637,791	797,153
Fund balances			
Nonspendable	24,785	-	-
Restricted	-	149,979	-
Committed	150,000	-	-
Unassigned	4,693,890	-	-
Total fund balances	4,868,675	149,979	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,129,534	\$ 1,848,383	\$ 797,153

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



Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 7,207,281	\$ 8,919,588
-	3,392,351	6,573,892
-	378,014	440,321
-	2,859,018	3,886,587
-	240,336	369,106
-	-	1,637,791
-	32,119	32,119
-	269,366	269,366
690,000	-	690,000
-	-	16,855
-	-	7,930
<u>\$ 690,000</u>	<u>\$ 14,378,485</u>	<u>\$ 22,843,555</u>
\$ -	\$ 359,138	\$ 553,969
-	15,142	61,158
-	-	60,000
-	8,839	8,839
-	200,572	200,572
<u>-</u>	<u>583,691</u>	<u>884,538</u>
-	2,859,018	3,676,796
690,000	-	2,327,791
<u>690,000</u>	<u>2,859,018</u>	<u>6,004,587</u>
-	-	24,785
-	7,510,753	7,660,732
-	3,617,374	3,767,374
-	(192,351)	4,501,539
<u>-</u>	<u>10,935,776</u>	<u>15,954,430</u>
<u>\$ 690,000</u>	<u>\$ 14,378,485</u>	<u>\$ 22,843,555</u>

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OTSEGO COUNTY, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2017

Fund balances - total governmental funds \$ 15,954,430

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	2,805,028
Capital assets being depreciated, net	7,839,905

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows of resources in the governmental funds and, therefore, are not included in fund balance.

Unavailable resources from mortgages and lease receivable	2,327,791
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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.

	506,734
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds and notes payable	(3,415,883)
Compensated absences	(170,542)
Net other postemployment benefits obligation	(2,211,032)
Accrued interest on long-term debt	(8,433)

Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.

Net pension liability	(7,796,345)
Deferred outflows related to the net pension liability	2,247,729
Deferred inflows related to the net pension liability	(179,383)

Net position of governmental activities \$ 17,899,999

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

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	General Fund	Housing Commission Special Revenue Fund	M-TEC Special Revenue Fund
Revenues			
Taxes	\$ 5,110,265	\$ -	\$ 754,540
Licenses and permits	32,553	-	-
Federal sources	68,184	131,499	-
State sources	1,260,904	-	-
Local sources	30,240	1,518	-
Charges for services	1,018,358	-	-
Fines and forfeits	13,286	-	-
Interest and rentals	167,441	244	-
Other	374,605	145,640	5,514
Total revenues	8,075,836	278,901	760,054
Expenditures			
Current:			
Legislative	216,112	-	-
Judicial	1,347,549	-	-
General government	2,123,092	-	-
Public safety	2,125,053	-	-
Public works	4,390	-	-
Health and welfare	545,599	-	-
Community and economic development	98,511	280,540	760,176
Recreation and culture	-	-	-
Other	558,445	-	-
Contribution to other governmental units	-	-	-
Debt service:			
Principal	9,863	-	-
Interest and fiscal charges	1,394	-	-
Total expenditures	7,030,008	280,540	760,176
Revenues over (under) expenditures	1,045,828	(1,639)	(122)
Other financing sources (uses)			
Proceeds from the issuance of long-term debt	-	-	-
Premium on long-term debt	-	-	-
Transfers in	127,300	182,584	-
Transfers out	(923,740)	(182,584)	-
Total other financing sources (uses)	(796,440)	-	-
Net change in fund balances	249,388	(1,639)	(122)
Fund balances, beginning of year	4,619,287	151,618	122
Fund balances, end of year	\$ 4,868,675	\$ 149,979	\$ -

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

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 2,638,732	\$ 8,503,537
-	-	32,553
-	413,491	613,174
-	389,013	1,649,917
67,463	599,375	698,596
-	1,125,169	2,143,527
-	191,708	204,994
-	91,867	259,552
-	1,774,365	2,300,124
<u>67,463</u>	<u>7,223,720</u>	<u>16,405,974</u>
-	-	216,112
-	434,708	1,782,257
-	945,486	3,068,578
-	1,687,468	3,812,521
-	369,920	374,310
-	720,697	1,266,296
-	-	1,139,227
-	1,533,369	1,533,369
-	387,290	945,735
-	121,440	121,440
595,000	114,115	718,978
85,075	3,471	89,940
<u>680,075</u>	<u>6,317,964</u>	<u>15,068,763</u>
<u>(612,612)</u>	<u>905,756</u>	<u>1,337,211</u>
-	2,250,000	2,250,000
-	24,158	24,158
612,612	1,663,733	2,586,229
-	(1,097,068)	(2,203,392)
<u>612,612</u>	<u>2,840,823</u>	<u>2,632,837</u>
-	3,746,579	3,994,206
-	7,189,197	11,960,224
<u>\$ -</u>	<u>\$ 10,935,776</u>	<u>\$ 15,954,430</u>

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OTSEGO COUNTY, MICHIGAN

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2017

Net change in fund balances - total governmental funds \$ 3,994,206

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds reported capital outlays as expenditures. However in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Acquisition/construction of capital assets	1,004,415
Depreciation expense	(923,120)
Loss on disposal of capital assets	(32,460)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Net change in unavailable resources from mortgages and lease receivable	(265,057)
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Contributions of capital assets from the Nature Center building are not recognized in the funds but increase capital assets in the statement of net position.

	742,496
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of long-term debt	(2,250,000)
Premium on long-term debt	(24,158)
Principal payments on long-term debt	718,978

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Amortization of issuance premium	3,510
Change in accrued interest payable on long-term debt	15,134
Change in the net pension liability and related deferred amounts	(93,934)
Change in compensated absences	915
Change in net other postemployment benefits obligation	(37,167)

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Change in net position from internal service funds reported within the governmental activities	(8,241)
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Change in net position of governmental activities \$ 2,845,517

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 - General Fund
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 5,001,111	\$ 5,110,263	\$ 5,110,265	\$ 2
Licenses and permits	39,000	41,100	32,553	(8,547)
Federal sources	72,600	72,600	68,184	(4,416)
State sources	1,273,951	1,276,051	1,260,904	(15,147)
Local sources	21,800	21,800	30,240	8,440
Charges for services	880,805	984,584	1,018,358	33,774
Fines and forfeits	14,000	14,000	13,286	(714)
Interest and rentals	175,000	190,000	167,441	(22,559)
Other	429,251	439,132	374,605	(64,527)
Total revenues	7,907,518	8,149,530	8,075,836	(73,694)
Expenditures				
Legislative:				
Board of Commissioners	225,360	224,466	216,112	(8,354)
Judicial:				
Circuit court	1,090,683	1,097,059	1,027,051	(70,008)
Lien fees	11,800	12,360	12,358	(2)
Drug court	134,162	134,162	104,140	(30,022)
RDSS transport	15,000	15,000	6,446	(8,554)
District court	34,912	34,912	3,150	(31,762)
Jury commission	45,675	45,675	19,714	(25,961)
Probate court	174,845	175,045	172,723	(2,322)
Probation/parole	1,500	1,500	1,442	(58)
Family counseling	4,000	4,000	525	(3,475)
Total judicial	1,512,577	1,519,713	1,347,549	(172,164)
General government:				
Administrative services	288,767	288,767	283,764	(5,003)
Buildings and grounds	290,000	290,000	290,000	-
Clerk and register of deeds	280,691	281,541	273,918	(7,623)
Audit services	11,825	11,825	11,825	-
IT department	61,381	62,275	64,614	2,339
Equalization	219,650	226,186	212,626	(13,560)
Treasurer	127,069	127,319	126,056	(1,263)
Cooperative extension	59,926	60,019	59,661	(358)
Elections	20,740	20,740	11,020	(9,720)
Prosecuting attorney	576,162	576,812	555,045	(21,767)
Register of deeds	58,710	58,860	48,923	(9,937)
Legal defense	25,000	65,000	53,374	(11,626)
Human resources	90,991	90,991	90,991	-
Surveyor	200	200	200	-
Soil conservation	4,000	4,000	4,000	-
Survey and remonumentation	37,075	37,075	37,075	-
Total general government	2,152,187	2,201,610	2,123,092	(78,518)

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public safety:				
Sheriff	\$ 924,497	\$ 904,927	\$ 872,901	\$ (32,026)
Civil division	37,724	61,268	61,083	(185)
SANE	20,000	20,000	20,000	-
Justice training	3,000	3,000	1,367	(1,633)
Marine safety	6,772	8,769	8,606	(163)
Motorcycle safety education	59,300	48,200	41,370	(6,830)
Snowmobile	5,751	12,751	4,169	(8,582)
Secondary road patrol	89,411	95,329	95,232	(97)
ORV	7,151	7,798	7,005	(793)
Jail	1,036,694	1,037,936	983,320	(54,616)
Emergency	30,000	30,000	30,000	-
Total public safety	2,220,300	2,229,978	2,125,053	(104,925)
Public works:				
Drains	6,000	6,000	4,390	(1,610)
Health and welfare:				
Communicable diseases	500	500	500	-
Medical examiner	103,650	108,535	96,225	(12,310)
District health	205,606	205,606	205,606	-
Mental health	94,003	94,003	94,003	-
Soldiers and sailors relief	5,000	10,000	9,053	(947)
Veteran's burial	7,650	7,650	4,530	(3,120)
Veteran's affairs	59,846	59,985	53,244	(6,741)
Substance abuse	78,421	82,441	82,438	(3)
Total health and welfare	554,676	568,720	545,599	(23,121)
Community and economic development				
Planning and zoning	94,879	98,609	98,511	(98)
Other:				
Appropriations	16,500	15,217	16,050	833
Bonds and insurance	255,000	219,340	219,339	(1)
Retiree insurance	75,617	54,388	52,911	(1,477)
Additional pension contributions	55,261	355,262	205,260	(150,002)
Other	121,651	130,439	64,885	(65,554)
Total other	524,029	774,646	558,445	(216,201)
Capital outlay	16,500	15,853	-	(15,853)
Debt service:				
Principal payments	13,924	12,102	9,863	(2,239)
Interest and fiscal charges	-	-	1,394	1,394
Total debt service	13,924	12,102	11,257	(845)
Total expenditures	7,320,432	7,651,697	7,030,008	(621,689)
Revenues over expenditures	587,086	497,833	1,045,828	547,995

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Operating transfers in	\$ 127,300	\$ 127,300	\$ 127,300	\$ -
Operating transfers out	(778,719)	(925,240)	(923,740)	(1,500)
Total other financing sources (uses)	(651,419)	(797,940)	(796,440)	1,500
Net change in fund balance	(64,333)	(300,107)	249,388	549,495
Fund balance, beginning of year	4,619,287	4,619,287	4,619,287	-
Fund balance, end of year	\$ 4,554,954	\$ 4,319,180	\$ 4,868,675	\$ 549,495

Concluded

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 - Housing Commission Special Revenue Fund

For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal sources	\$ 170,000	\$ 170,000	\$ 131,499	\$ (38,501)
Local sources	30,505	30,505	1,518	(28,987)
Interest and rentals	100	250	244	(6)
Other	84,700	181,460	145,640	(35,820)
Total revenues	285,305	382,215	278,901	(103,314)
Expenditures				
Community and economic development	290,753	290,979	280,540	(10,439)
Revenues over (under) expenditures	(5,448)	91,236	(1,639)	(92,875)
Other financing sources (uses)				
Transfers in	114,470	114,696	182,584	67,888
Transfers out	(112,145)	(209,055)	(182,584)	(26,471)
Total other financing sources (uses)	2,325	(94,359)	-	94,359
Net change in fund balance	(3,123)	(3,123)	(1,639)	1,484
Fund balance, beginning of year	151,618	151,618	151,618	-
Fund balance, end of year	\$ 148,495	\$ 148,495	\$ 149,979	\$ 1,484

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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 750,000	\$ 770,000	\$ 754,540	\$ (15,460)
Other	-	-	5,514	5,514
Total revenues	750,000	770,000	760,054	(9,946)
Expenditures				
Community and economic development	750,000	770,000	760,176	(9,824)
Net change in fund balance	-	-	(122)	(122)
Fund balance, beginning of year	122	122	122	-
Fund balance, end of year	\$ 122	\$ 122	\$ -	\$ (122)

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

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OTSEGO COUNTY, MICHIGAN

Statement of Net Position

Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2017	Airport
Assets			
Current assets:			
Cash and cash equivalents	\$ 466,738	\$ 116,267	\$ 177,883
Investments	4,929,626	-	-
Taxes receivable	1,106,649	-	-
Interest receivable	144,452	-	-
Accounts receivable	318	24,605	20,507
Due from other governments	-	81,718	-
Due from other funds	80,000	-	-
Advances to component units	240,000	-	-
Inventories	-	-	45,939
Prepays	-	-	13,205
Total current assets	6,967,783	222,590	257,534
Noncurrent assets:			
Capital assets not being depreciated	-	99,998	-
Capital assets being depreciated, net	-	334,532	6,433,395
Total noncurrent assets	-	434,530	6,433,395
Total assets	6,967,783	657,120	6,690,929
Deferred outflows of resources			
Deferred pension amounts	-	362,472	-
Liabilities			
Current liabilities:			
Accounts payable	12,584	13,468	25,481
Accrued liabilities	823	65,687	532
Due to other funds	-	20,000	-
Due to other governments	-	87,247	-
Total current liabilities	13,407	186,402	26,013
Noncurrent liabilities:			
Advances from other funds	-	-	32,119
Net pension liability	-	577,835	-
Total noncurrent liabilities	-	577,835	32,119
Total liabilities	13,407	764,237	58,132
Deferred inflows of resources			
Deferred pension amounts	-	197,975	-
Net position			
Investment in capital assets	-	434,530	6,433,395
Unrestricted (deficit)	6,954,376	(377,150)	199,402
Total net position	\$ 6,954,376	\$ 57,380	\$ 6,632,797

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



		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 661,317	\$ 1,422,205	\$ 162,548
1,207,166	6,136,792	200,000
-	1,106,649	-
-	144,452	-
8,213	53,643	12,008
-	81,718	-
-	80,000	-
-	240,000	-
-	45,939	325
6,266	19,471	151,115
<u>1,882,962</u>	<u>9,330,869</u>	<u>525,996</u>
-	99,998	-
73,783	6,841,710	-
<u>73,783</u>	<u>6,941,708</u>	<u>-</u>
<u>1,956,745</u>	<u>16,272,577</u>	<u>525,996</u>
-	362,472	-
18,453	69,986	17,606
830	67,872	1,656
-	20,000	-
-	87,247	-
<u>19,283</u>	<u>245,105</u>	<u>19,262</u>
-	32,119	-
-	577,835	-
<u>-</u>	<u>609,954</u>	<u>-</u>
<u>19,283</u>	<u>855,059</u>	<u>19,262</u>
-	197,975	-
73,783	6,941,708	-
<u>1,863,679</u>	<u>8,640,307</u>	<u>506,734</u>
<u>\$ 1,937,462</u>	<u>\$ 15,582,015</u>	<u>\$ 506,734</u>

OTSEGO COUNTY, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2017	Airport
Operating revenues			
Charges for services	\$ 98,036	\$ 343,779	\$ 835,938
Interest and penalties	239,186	-	-
Local sources	-	-	-
Other	-	-	14,041
Total operating revenues	<u>337,222</u>	<u>343,779</u>	<u>849,979</u>
Operating expenses			
Salaries and fringes	56,064	1,364,378	137,037
Contractual services	88,691	-	153,072
Materials and supplies	5,589	-	575,555
Equipment repair and maintenance	-	-	-
Utilities	-	-	-
Depreciation	-	158,818	587,055
Other	27,637	343,841	254,631
Total operating expenses	<u>177,981</u>	<u>1,867,037</u>	<u>1,707,350</u>
Operating income (loss)	<u>159,241</u>	<u>(1,523,258)</u>	<u>(857,371)</u>
Nonoperating revenues (expenses)			
State grants	-	623,244	18,750
Federal grants	-	361,971	337,500
Investment earnings	104,709	-	5,491
Property taxes levied	-	293,501	-
Other revenues	-	39,639	-
Total nonoperating revenues	<u>104,709</u>	<u>1,318,355</u>	<u>361,741</u>
Income (loss) before transfers	<u>263,950</u>	<u>(204,903)</u>	<u>(495,630)</u>
Other financing sources (uses)			
Transfers in	150	20,077	25,152
Transfers out	(372,800)	-	-
Total other financing sources (uses)	<u>(372,650)</u>	<u>20,077</u>	<u>25,152</u>
Change in net position	<u>(108,700)</u>	<u>(184,826)</u>	<u>(470,478)</u>
Net position, beginning of year	<u>7,063,076</u>	<u>242,206</u>	<u>7,103,275</u>
Net position, end of year	<u>\$ 6,954,376</u>	<u>\$ 57,380</u>	<u>\$ 6,632,797</u>

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

		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 328,879	\$ 1,606,632	\$ 2,254,455
-	239,186	-
5,000	5,000	-
-	14,041	-
<u>333,879</u>	<u>1,864,859</u>	<u>2,254,455</u>
56,231	1,613,710	1,795,375
105,967	347,730	243,640
60,108	641,252	32,271
-	-	18,142
-	-	187,049
12,300	758,173	-
136,392	762,501	15,488
<u>370,998</u>	<u>4,123,366</u>	<u>2,291,965</u>
<u>(37,119)</u>	<u>(2,258,507)</u>	<u>(37,510)</u>
-	641,994	-
-	699,471	-
33,324	143,524	4,820
-	293,501	-
162,818	202,457	-
<u>196,142</u>	<u>1,980,947</u>	<u>4,820</u>
<u>159,023</u>	<u>(277,560)</u>	<u>(32,690)</u>
17,000	62,379	24,449
<u>(110,000)</u>	<u>(482,800)</u>	<u>-</u>
<u>(93,000)</u>	<u>(420,421)</u>	<u>24,449</u>
66,023	(697,981)	(8,241)
<u>1,871,439</u>	<u>16,279,996</u>	<u>514,975</u>
<u>\$ 1,937,462</u>	<u>\$ 15,582,015</u>	<u>\$ 506,734</u>

OTSEGO COUNTY, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2017	Airport
Cash flows from operating activities			
Cash received from customers	\$ 296,506	\$ 346,257	\$ 864,107
Cash received from interfund services	-	-	-
Cash payments for goods and services	(138,377)	(340,568)	(945,693)
Cash payments to employees	(55,677)	(1,261,875)	(138,290)
Net cash provided by (used in) operating activities	<u>102,452</u>	<u>(1,256,186)</u>	<u>(219,876)</u>
Cash flows from noncapital financing activities			
State grants	-	683,716	337,500
Federal grants	-	315,418	18,750
Property tax	-	293,501	-
Other receipts	-	39,639	-
Repayment on advance from other funds	-	(10,000)	(10,835)
Transfers in	150	20,077	25,152
Transfers out	(372,800)	-	-
Net cash provided by (used in) noncapital financing activities	<u>(372,650)</u>	<u>1,342,351</u>	<u>370,567</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	-	-	(249,800)
Cash flows from investing activities			
Proceeds from sale of investments	332,788	-	-
Interest received on investments	104,709	-	5,491
Net cash provided by investing activities	<u>437,497</u>	<u>-</u>	<u>5,491</u>
Net change in cash and cash equivalents	<u>167,299</u>	<u>86,165</u>	<u>(93,618)</u>
Cash and cash equivalents, beginning of year	<u>299,439</u>	<u>30,102</u>	<u>271,501</u>
Cash and cash equivalents, end of year	<u>\$ 466,738</u>	<u>\$ 116,267</u>	<u>\$ 177,883</u>



Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 338,630	\$ 1,845,500	\$ -
-	-	2,252,812
(357,345)	(1,781,983)	(544,067)
-	(1,455,842)	(1,814,205)
(18,715)	(1,392,325)	(105,460)
-	1,021,216	-
-	334,168	-
-	293,501	-
162,818	202,457	-
-	(20,835)	-
17,000	62,379	24,449
(110,000)	(482,800)	-
69,818	1,410,086	24,449
-	(249,800)	-
173,586	506,374	-
33,324	143,524	4,820
206,910	649,898	4,820
258,013	417,859	(76,191)
403,304	1,004,346	238,739
\$ 661,317	\$ 1,422,205	\$ 162,548

Continued...

OTSEGO COUNTY, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds		
	Delinquent Tax Revolving Fund	Bus System 9/30/2017	Airport
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 159,241	\$ (1,523,258)	\$ (857,371)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	158,818	587,055
Change in operating assets and liabilities that provided (used) cash:			
Taxes receivable	(113,689)	-	-
Interest receivable	2,967	-	-
Accounts receivable	6	2,478	14,128
Due from other funds	220,000	-	-
Advances to other funds	(150,000)	-	-
Prepays	-	-	56,575
Inventories	-	-	(3,131)
Accounts payable	(16,460)	(2,788)	(15,879)
Net pension liability and related deferred amounts	-	108,564	-
Accrued liabilities	387	-	(1,253)
Net cash provided by (used in) operating activities	<u>\$ 102,452</u>	<u>\$ (1,256,186)</u>	<u>\$ (219,876)</u>

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



Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ (37,119)	\$ (2,258,507)	\$ (37,510)
12,300	758,173	-
-	(113,689)	-
-	2,967	-
4,751	21,363	(1,643)
-	220,000	-
-	(150,000)	-
(6,266)	50,309	(58,292)
-	(3,131)	-
7,225	(27,902)	(8,065)
-	108,564	-
394	(472)	50
<u>\$ (18,715)</u>	<u>\$ (1,392,325)</u>	<u>\$ (105,460)</u>

Concluded

OTSEGO COUNTY, MICHIGAN

Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2017

	Agency Funds
Assets	
Cash and cash equivalents	<u>\$ 2,337,228</u>
Liabilities	
Undistributed tax collections	1,315,141
Bonds, restitutions, and payables to others	<u>1,022,087</u>
Total liabilities	<u>\$ 2,337,228</u>

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

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OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position Discretely Presented Component Units December 31, 2017

	Road Commission	Ambulance Corporation	University Center
Assets			
Cash and cash equivalents	\$ 1,737,982	\$ 48,964	\$ -
Investments	1,887,450	-	-
Receivables, net:			
Accounts	1,120,506	393,000	-
Taxes	1,063,476	959,788	-
Inventories	660,735	-	-
Prepays	-	-	-
Capital assets not being depreciated	10,889,984	5,000	-
Capital assets being depreciated, net	22,958,528	1,741,026	-
Total assets	40,318,661	3,147,778	-
Deferred outflows of resources			
Deferred pension amounts	591,103	-	-
Liabilities			
Accounts payable	222,391	25,998	-
Accrued liabilities	115,630	6,164	-
Due to other governments	131,490	-	-
Advances from government units	412,175	-	-
Unearned revenue	-	-	-
Advances from primary government	-	509,366	-
Long-term debt			
Due within one year	543,810	-	-
Due in more than one year	1,742,038	-	-
Net pension liability	5,074,074	-	-
Net other postemployment benefits obligation	8,718,698	-	-
Total liabilities	16,960,306	541,528	-
Deferred inflows of resources			
Taxes levied for a subsequent period	1,063,476	959,788	-
Other state grants	446,430	-	-
Total deferred inflows	1,509,906	959,788	-
Net position			
Net investment in capital assets	31,862,423	1,746,026	-
Restricted	-	-	-
Unrestricted (deficit)	(9,422,871)	(99,564)	-
Total net position	\$ 22,439,552	\$ 1,646,462	\$ -

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

Commission on Aging 9/30/2017	Sportsplex	Total
\$ 753,717	\$ 54,170	\$ 2,594,833
-	45,214	1,932,664
24,699	38,397	1,576,602
-	308,266	2,331,530
2,007	7,068	669,810
604	-	604
-	-	10,894,984
-	-	24,699,554
<u>781,027</u>	<u>453,115</u>	<u>44,700,581</u>
-	-	591,103
52,437	1,666	302,492
-	-	121,794
-	-	131,490
-	-	412,175
-	31,707	31,707
-	-	509,366
-	-	543,810
-	-	1,742,038
-	-	5,074,074
-	-	8,718,698
<u>52,437</u>	<u>33,373</u>	<u>17,587,644</u>
-	308,266	2,331,530
-	-	446,430
-	308,266	2,777,960
-	-	33,608,449
44,000	-	44,000
<u>684,590</u>	<u>111,476</u>	<u>(8,726,369)</u>
<u>\$ 728,590</u>	<u>\$ 111,476</u>	<u>\$ 24,926,080</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Activities Discretely Presented Component Units For the Year Ended December 31, 2017

	Road Commission	Ambulance Corporation	University Center
Expenses			
Road commission	\$ 8,013,909	\$ -	\$ -
Ambulance corporation	-	2,777,590	-
Commission on aging 9/30/2017	-	-	-
Sportsplex	-	-	-
Total expenses	<u>8,013,909</u>	<u>2,777,590</u>	<u>-</u>
Program revenues			
Charges for services	2,229,510	1,707,254	-
Operating grants and contributions	3,877,081	-	-
Capital grants and contributions	3,046,218	-	-
Total program revenues	<u>9,152,809</u>	<u>1,707,254</u>	<u>-</u>
Net revenue (expense)	<u>1,138,900</u>	<u>(1,070,336)</u>	<u>-</u>
General revenues			
Property taxes	-	464,998	-
Investment earnings	-	71	-
Gain on sale of capital assets	16,800	-	-
Other	985,400	3,413	-
Total general revenues	<u>1,002,200</u>	<u>468,482</u>	<u>-</u>
Change in net position	<u>2,141,100</u>	<u>(601,854)</u>	<u>-</u>
Special items			
Transfer of operations (Note 22)	-	-	(1,205,091)
Net position, beginning of year	<u>20,298,452</u>	<u>2,248,316</u>	<u>1,205,091</u>
Net position, end of year	<u>\$ 22,439,552</u>	<u>\$ 1,646,462</u>	<u>\$ -</u>

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

Commission on Aging 9/30/2017	Sportsplex	Total
\$ -	\$ -	\$ 8,013,909
-	-	2,777,590
1,712,941	-	1,712,941
-	855,101	855,101
<u>1,712,941</u>	<u>855,101</u>	<u>13,359,541</u>
58,736	398,172	4,393,672
428,778	-	4,305,859
-	-	3,046,218
<u>487,514</u>	<u>398,172</u>	<u>11,745,749</u>
<u>(1,225,427)</u>	<u>(456,929)</u>	<u>(1,613,792)</u>
1,173,658	292,851	1,931,507
1,961	-	2,032
-	-	16,800
<u>77,219</u>	<u>175,471</u>	<u>1,241,503</u>
<u>1,252,838</u>	<u>468,322</u>	<u>3,191,842</u>
27,411	11,393	1,578,050
-	-	(1,205,091)
<u>701,179</u>	<u>100,083</u>	<u>24,553,121</u>
<u>\$ 728,590</u>	<u>\$ 111,476</u>	<u>\$ 24,926,080</u>

NOTES TO FINANCIAL STATEMENTS

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Blended Component 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 Funds as presented in this report.

Discretely Presented Component Units

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

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

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

Component Unit Financial Statements

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

Administrative Offices

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, MI 49735

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

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Joint Ventures

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

Northwest Michigan Community Health Agency (the "Health Agency") - The Health Agency provides health service for residents of Otsego County. The Counties of Otsego, Antrim, Emmet, and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the financial statements of Charlevoix County. The funding formula, approved by the member Counties, is based on a pro rata amount based on each unit's population and equalized valuation to the member Counties total population and valuation. Member Counties' percentages of the net operation budget for the year 2017 were as follows:

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

Otsego County's appropriation to the Health Agency recorded in the General fund in 2017 was \$205,606.

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

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

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

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The Otsego County 2017 local match, recorded in the General fund, was \$94,003.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

Component Unit and Enterprise Fund with Different Fiscal Year Ends

The financial information presented in this report is for the year ended December 31, 2017, except for the following component unit and enterprise fund:

Fund	Fund Presentation	Fiscal Year End
Commission on Aging	Component Unit	September 30, 2017
Bus System	Enterprise Fund	September 30, 2017

Government-wide and Fund Financial Statements

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

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major proprietary funds:

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

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

Additionally, the County reports the following fund types:

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

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

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

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

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

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

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

Deposits and Investments

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

State statutes authorize the County to invest in:

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

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

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

Bankers' acceptances of United States banks.

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

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

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

Receivables and Payables

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

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

The accounts receivable for the Ambulance Corporation component unit is presented net of allowance for doubtful accounts of \$824,000.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Other Assets

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

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

Capital Assets

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

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

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

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Road Commission - Discretely Presented Component Unit

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

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

Deferred Outflows of Resources

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

Accrued Compensated Absences (Vacation and Sick Leave)

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

Long-term Obligations

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Deferred Inflows of Resources

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

Fund Balances

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

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

Budget Stabilization Arrangement

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

Interfund Transactions

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Unearned Revenues

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

Grants and other Intergovernmental Revenues

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

Pensions

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

Use of Estimates

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

2. BUDGETARY INFORMATION

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

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

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

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

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

3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the County were adopted on the departmental level basis for the General Fund and all special revenue funds, which is the legal level of control. During the year ended December 31, 2017 the County had IT department and appropriation expenditures in the General Fund which were in excess of the amounts budgeted by \$2,339 and \$833 respectively.

4. DEFICIT FUND BALANCE

The Bus System enterprise fund, the Road Commission and the Ambulance Corporation, discretely presented component units, reported a deficit unrestricted net position of \$377,150 at September 30, 2017, \$9,422,871 and \$99,564 at December 31, 2017, respectively. The Sportsplex Tennis Court Construction fund, a nonmajor governmental fund, reported an unassigned deficit of \$192,351 at December 31, 2017.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

5. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2017:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 10,504,341	\$ 2,594,833	\$ 13,099,174
Investments	12,910,684	1,932,664	14,843,348
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents	2,337,228	-	2,337,228
Total	\$ 25,752,253	\$ 4,527,497	\$ 30,279,750

Deposits and investments

Bank deposits:			
Checking and savings accounts			\$ 15,423,058
Pooled certificates of deposit:			
Due within one year			955,000
Due within six to ten years			1,173,110
U.S. agencies			11,807,254
Public money market			502,710
Other - Road Commission Investments			401,872
Equity in wholly owned subsidiary			3,402
Cash on hand			13,344
Total			\$ 30,279,750

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the County's deposits might not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, \$13,933,365 of the County's bank balance of \$15,151,300 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of the investments or collateral securities that are in possession of an outside party. The County does not have a policy for investment custodial credit risk. As of year-end, \$1,931,900 of the County's certificates of deposit was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Investments	Credit Rating	Fair Value
U.S. Government agencies	AA+	\$ 11,807,254
Other - Road Commission Investments	Not rated	401,872
Equity in wholly owned subsidiary	Not rated	<u>3,402</u>
Total		<u><u>\$ 12,212,528</u></u>

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

Concentration of credit risk. The County's investment policy places no limit on the amount the County may invest in any one issuer. At December 31, 2017, the County had 85% of its investments in U.S. Government Agencies. The remaining 15% of the County's investments consists of certificates of deposit with an original maturity greater than 90 days, of which more than 91% are held in two financial institutions.

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

Investment Maturities (Fair Value)	
Investment Type	More than 10 years
U.S. Government agencies	<u><u>\$ 11,807,254</u></u>

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:				
US government bonds	\$ -	\$ 11,807,254	\$ -	\$ 11,807,254
Other - Road Commission				
Investments	-	401,872	-	401,872
Equity in wholly owned subsidiary	-	-	3,402	3,402
Total investments at fair value	\$ -	\$ 12,209,126	\$ 3,402	12,212,528
Investments carried at amortized cost -				
Money market funds				502,710
Total				\$ 12,715,238

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

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.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

6. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 452,329	\$ 53,643	\$ 2,400,602
Less: Allowance for uncollectible accounts	-	-	(824,000)
Property taxes	3,886,587	1,106,649	2,331,530
Due from other governments	369,106	81,718	-
Loans	1,637,791	-	-
Interest	-	144,452	-
Totals	\$ 6,345,813	\$ 1,386,462	\$ 3,908,132

Loans receivable - Housing Commission Special Revenue Fund

The amounts included as loans receivable represent long-term mortgage notes in the Housing Commission Special Revenue Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0% to 3.5% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred inflows of resources. Revenue is recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation, or rehabilitation of residential buildings. At December 31, 2017, the total amount of outstanding loans was \$1,637,791. The County estimates that all payments due in 2018 will be paid. However, as of this reports issuance date of June 28, 2018, \$69,800 of receivable loans were forgiven.

Lease receivable - Road Commission Discretely Presented Component Unit

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

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Governmental Activities	Business-type Activities	Component Units
Accounts payable	\$ 571,575	\$ 69,986	\$ 302,492
Accrued liabilities	62,814	67,872	121,794
Due to other governments	8,839	87,247	131,490
Accrued interest on long-term debt	8,433	-	-
Totals	\$ 651,661	\$ 225,105	\$ 555,776

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2017, was as follows:

Due to and from primary government funds

	Due from Other Funds	Due to Other Funds
Housing Commission fund	\$ -	\$ 60,000
Delinquent Tax Revolving fund	80,000	-
Bus system	-	20,000
	<u>\$ 80,000</u>	<u>\$ 80,000</u>

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	\$ 32,119	\$ -
Airport	-	32,119
	<u>\$ 32,119</u>	<u>\$ 32,119</u>

Advances to and from component units

	Advance to Component Unit	Advance From Primary government
Nonmajor governmental funds	\$ 269,366	\$ -
Delinquent Tax Revolving fund	240,000	-
Ambulance	-	509,366
	<u>\$ 509,366</u>	<u>\$ 509,366</u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

For the year ended December 31, 2017, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 127,300	\$ 923,740
Housing Commission	182,584	182,584
Debt service fund	612,612	-
Nonmajor governmental funds	1,663,733	1,097,068
Delinquent Tax Fund	150	372,800
Bus System	20,077	-
Airport	25,152	-
Nonmajor enterprise funds	17,000	110,000
Internal service funds	24,449	-
Timing difference	13,135	-
	<u>\$ 2,686,192</u>	<u>\$ 2,686,192</u>

The timing difference above in the amount of \$13,135, is a result of the Bus System Enterprise Fund having a fiscal year-end that is different from the County's year-end.

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

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, 2017, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 2,227,138	\$ 54,934	\$ -	\$ -	\$ 2,282,072
Construction in progress	146,867	510,847	(32,460)	(102,298)	522,956
Total capital assets not being depreciated, net	2,374,005	565,781	(32,460)	(102,298)	2,805,028
Capital assets, being depreciated:					
Buildings	15,846,228	758,438	-	102,298	16,706,964
Leasehold improvements	-	24,854	-	-	24,854
Furniture and fixtures	525,530	363,707	-	-	889,237
Equipment:					
Data handling	1,360,283	586,240	-	-	1,946,523
Other equipment	2,389,120	235,310	-	-	2,624,430
Vehicles	1,539,370	118,949	(14,600)	-	1,643,719
Infrastructure	37,130	-	-	-	37,130
	21,697,661	2,087,498	(14,600)	102,298	23,872,857
Less accumulated depreciation for:					
Buildings	(10,352,534)	(654,008)	-	-	(11,006,542)
Leasehold improvements	-	(24,854)	-	-	(24,854)
Furniture and fixtures	(434,643)	(324,959)	-	-	(759,602)
Equipment:					
Data handling	(1,113,476)	(598,665)	-	-	(1,712,141)
Other equipment	(988,334)	(118,036)	-	-	(1,106,370)
Vehicles	(1,314,105)	(106,969)	14,600	-	(1,406,474)
Infrastructure	(14,972)	(1,997)	-	-	(16,969)
	(14,218,064)	(1,829,488)	14,600	-	(16,032,952)
Total capital assets being depreciated, net	7,479,597	258,010	-	102,298	7,839,905
Governmental activities capital assets, net	\$ 9,853,602	\$ 823,791	\$ (32,460)	\$ -	\$ 10,644,933

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 99,998	\$ -	\$ -	\$ -	\$ 99,998
Construction in progress	16,500	-	-	(16,500)	-
Total capital assets not being depreciated, net	116,498	-	-	(16,500)	99,998
Capital assets, being depreciated:					
Buildings	2,641,858	-	-	-	2,641,858
Furniture and fixtures	6,000	-	-	-	6,000
Vehicles	1,691,045	-	-	-	1,691,045
Equipment	332,917	-	-	-	332,917
Infrastructure	12,513,302	249,800	-	16,500	12,779,602
	17,185,122	249,800	-	16,500	17,451,422
Less accumulated depreciation for:					
Buildings	(1,213,501)	(105,501)	-	-	(1,319,002)
Furniture and fixtures	(6,000)	-	-	-	(6,000)
Vehicles	(1,467,476)	(120,762)	-	-	(1,588,238)
Equipment	(226,288)	(14,300)	-	-	(240,588)
Infrastructure	(6,938,274)	(517,610)	-	-	(7,455,884)
	(9,851,539)	(758,173)	-	-	(10,609,712)
Total capital assets being depreciated, net	7,333,583	(508,373)	-	-	6,841,710
Business-type activities capital assets, net	\$ 7,450,081	\$ (508,373)	\$ -	\$ -	\$ 6,941,708

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

Depreciation of governmental activities by function

General government	\$ 1,287,156
Public safety	187,103
Recreation and culture	355,229

Total depreciation expense - governmental activities \$ 1,829,488

Depreciation of business-type activities by function

Bus System 9/30/2017	\$ 158,818
Airport	587,055
University Center Metropolitan Area Network	12,300

Total depreciation expense - business-type activities \$ 758,173

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, 2017, was as follows:

	Beginning Balance	Additions	Disposals/ Adjustments	Ending Balance
Component Unit - Road Commission				
Capital assets, not being depreciated:				
Land and improvements	\$ 9,895,950	\$ 994,034	\$ -	\$ 10,889,984
Capital assets, being depreciated:				
Buildings	3,934,836	8,995	(7,701)	3,936,130
Road equipment	6,643,471	370,064	79,856	7,093,391
Shop equipment	108,683	-	-	108,683
Office equipment	51,030	-	(768)	50,262
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	33,483,324	2,052,184	(3,193,949)	32,341,559
	<u>45,398,564</u>	<u>2,431,243</u>	<u>(3,122,562)</u>	<u>44,707,245</u>
Less accumulated depreciation for:				
Buildings	(1,811,734)	(86,903)	7,570	(1,891,067)
Road equipment	(5,358,274)	(594,591)	171,319	(5,781,546)
Shop equipment	(99,000)	(3,618)	-	(102,618)
Office equipment	(43,197)	(3,922)	768	(46,351)
Engineer's equipment	(13,253)	(309)	-	(13,562)
Yard and storage equipment	(1,800)	-	-	(1,800)
Traffic signals	(43,695)	(1,701)	-	(45,396)
Infrastructure - bridges	(276,270)	(28,839)	-	(305,109)
Infrastructure - roads	(15,178,305)	(1,576,912)	3,193,949	(13,561,268)
	<u>(22,825,528)</u>	<u>(2,296,795)</u>	<u>3,373,606</u>	<u>(21,748,717)</u>
Total capital assets being depreciated, net	<u>22,573,036</u>	<u>134,448</u>	<u>251,044</u>	<u>22,958,528</u>
Road Commission capital assets, net	<u>\$ 32,468,986</u>	<u>\$ 1,128,482</u>	<u>\$ 251,044</u>	<u>\$ 33,848,512</u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Component Unit - Otsego County Ambulance Corporation					
Capital assets, not being depreciated:					
Construction in progress	\$ -	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated:					
Buildings	1,600,544	-	-	-	1,600,544
Other equipment	634,245	31,500	-	-	665,745
Vehicles	2,047,875	178,536	-	-	2,226,411
	<u>4,282,664</u>	<u>210,036</u>	<u>-</u>	<u>-</u>	<u>4,492,700</u>
Less accumulated depreciation for:					
Buildings	(615,022)	(64,022)	-	-	(679,044)
Other equipment	(545,474)	(35,482)	-	-	(580,956)
Vehicles	(1,337,433)	(154,241)	-	-	(1,491,674)
	<u>(2,497,929)</u>	<u>(253,745)</u>	<u>-</u>	<u>-</u>	<u>(2,751,674)</u>
Total capital assets being depreciated, net	<u>1,784,735</u>	<u>(43,709)</u>	<u>-</u>	<u>-</u>	<u>1,741,026</u>
Otsego County Ambulance Corp capital assets, net	<u>\$ 1,705,289</u>	<u>\$ (38,709)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,746,026</u>
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Component Unit - Otsego County Commission on Aging					
Capital assets being depreciated:					
Leasehold improvements and equipment	\$ 140,189	\$ -	\$ -	\$ -	\$ 140,189
Less accumulated depreciation for:					
Leasehold improvements and equipment	(140,189)	-	-	-	(140,189)
Otsego County Commission on Aging capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Otsego County Building Authority Series 2017 Bonds, maturing serially through 2022 in annual amounts ranging from \$360,000 to \$395,000 and at interest rates ranging from 1.75% to 2.0%.	\$ -	\$ 2,250,000	\$ 360,000	\$ 1,890,000	\$ 360,000
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%.	880,000	-	200,000	680,000	220,000
Otsego County Building Authority Series 2011 Bonds, issued on behalf of Otsego County Road Commission, maturing serially through 2031 in annual amounts ranging from \$35,000 to \$65,000 and at interest rates ranging from 3.25% to 5.0%.	725,000	-	35,000	690,000	35,000
Otsego County Brownfield Redevelopment Authority loan, maturing through 2024 with payments ranging from \$47,472 to \$48,184 and interest at 1.5%.	231,512	-	114,115	117,397	29,152

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Equipment purchase agreement through fiscal year 2019 requiring monthly payments of \$952 including interest at .44% secured by the related equipment.	\$ 30,801	\$ -	\$ 9,863	\$ 20,938	\$ 10,740
Total installment debt	1,867,313	2,250,000	718,978	3,398,335	654,892
Premium on bond issuance	-	21,058	3,510	17,548	3,510
Accrued compensated absences	171,457	268,404	269,319	170,542	-
Total governmental activities	\$ 2,038,770	\$ 2,539,462	\$ 991,807	\$ 3,586,425	\$ 658,402

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

Year Ended December 31,	Bonds Payable		Installments Payable	
	Principal	Interest	Principal	Interest
2018	\$ 644,152	\$ 86,577	\$ 10,740	\$ 848
2019	659,592	69,724	10,198	273
2020	690,040	52,201	-	-
2021	453,613	40,728	-	-
2022	440,000	28,955	-	-
2023-2027	245,000	91,176	-	-
2028-2031	245,000	25,375	-	-
	\$ 3,377,397	\$ 394,736	\$ 20,938	\$ 1,121

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Discretely Presented Component Units					
<i>Road Commission</i>					
Lease payable to the County in amounts sufficient to allow the County to pay the principal and interest on the Otsego County Building Authority Series 2011 bonds as they become due, maturing serially through 2031 in annual amounts ranging from \$35,000 to \$65,000 and at interest rates from 3.25% to 5.0%.					
	\$ 725,000	\$ -	\$ 35,000	\$ 690,000	\$ 35,000
Installment purchase agreements	1,158,671	505,141	367,723	1,296,089	508,810
Total installment debt	1,883,671	505,141	402,723	1,986,089	543,810
Accrued compensated absences (1)	223,889	75,870	-	299,759	-
Total road commission component unit	\$ 2,107,560	\$ 581,011	\$ 402,723	\$ 2,285,848	\$ 543,810

(1) Net increase.

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

Year Ended December 31,	Lease Payable		Installments Payable	
	Principal	Interest	Principal	Interest
2018	\$ 35,000	\$ 30,488	\$ 508,810	\$ 24,361
2019	40,000	29,175	368,851	14,799
2020	40,000	27,775	418,428	3,534
2021	40,000	26,325	-	-
2022	45,000	24,562	-	-
2023-2027	245,000	91,175	-	-
2028-2031	245,000	25,375	-	-
	\$ 690,000	\$ 254,875	\$ 1,296,089	\$ 42,694

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 \$29,413 at December 31, 2017.

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

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

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2017, the balance of the County's member retention was \$365,072.

Changes in the balances of claims liabilities are as follows:

	Fiscal Year Ended December	
	2017	2016
Estimated liability, beginning of year	\$ 17,430	\$ -
Receipts	49,945	74,430
Estimated claims incurred	(37,850)	(55,111)
Claim payments	(17,365)	(1,888)
Estimated liability, end of year	\$ 12,160	\$ 17,431

Coverage	Self-Insured Retention
Liability	\$75,000
Vehicle Physical Damage	\$15,000 per vehicle
\$1,000 Member Deductible	\$30,000 per occurrence
Property and crime	
\$1,000 deductible per occurrence	10% of the next \$100,000
Employee Benefits	Commercial Insurance Provider

Workers' Compensation

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

At December 31, 2017 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

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, 2017, 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

At December 31, 2017, there were no claims that exceeded insurance coverage. The Sportsplex did not have any significant reduction in insurance coverage from previous years.

14. PROPERTY TAXES

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

Although the County of Otsego 2016 ad valorem tax is levied and collectible on December 1, 2016 and the 2017 ad valorem tax is levied and collectible on July 1, 2017, it is the County of Otsego's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax revolving funds within one year.

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

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

The July 1, 2017 taxable valuation of the County of Otsego totaled \$1,152,384,044, on which ad valorem taxes levied consisted of 4.0502 mills for the General Fund, this amount is recognized in the General Fund.

15. TAX ABATEMENTS

Industrial Facilities Exemption

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

City of Gaylord Tax Abatements

For the year ended December 31, 2017, Otsego County property taxes were reduced by \$11,318 under this program.

Bagley Township Tax Abatements

For the year ended December 31, 2017, Otsego County property taxes were reduced by \$7,946 under this program.

Corwith Township Tax Abatements

For the year ended December 31, 2017, Otsego County property taxes were reduced by \$1,738 under this program.

Livingston Township Tax Abatements

For the year ended December 31, 2017, Otsego County property taxes were reduced by \$1,995 under this program.

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, 2017, Otsego County property taxes were reduced by \$3,234 under this program.

Brownfield Redevelopment Financing

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

City of Gaylord Tax Abatements

For the year ended December 31, 2017, Otsego County property taxes were reduced by \$606 under this program.

16. CONTINGENT LIABILITIES

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

17. BENEFIT PLANS

Primary Government

Defined Benefit Pension Plan

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

The service requirement for General Non-union, POAM, Teamsters Local #214 and 46th Circuit Court is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC-5), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors and the Sheriff-POLC Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC-5), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2016.

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, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	101
Inactive employees entitled to but not yet receiving benefits	43
Active employees	<u>110</u>
Total membership	<u><u>254</u></u>

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

Division Name	Division Name	Status	Employer Contribution Rate	Employee Contribution Rate
General Non Union	Defined Benefit	Closed	\$ 6,381	0%
Library Non Union	Defined Benefit	Open	12.35%	0%
General Local 214 Bus	Defined Benefit	Closed	\$ 7,268	0%
Police Officers Association of Michigan	Defined Benefit	Closed	\$ 3,331	0%
Elected Appointed Supervisors	Defined Benefit	Closed	\$ 23,061	0%
46th Trial Court	Defined Benefit	Closed	\$ 8,903	0%
General Local 214 Clerical	Defined Benefit	Closed	\$ 4,167	0%
87-A Judge/Friend of Court pre 9/1/14	Defined Benefit	Closed	\$ 1,994	0%
Sheriff Union	Defined Benefit	Closed	\$ 9,170	0%
Sheriff Union new hires after 6/1/10	Defined Benefit	Closed	\$ 1,157	4%
Library Director	Defined Benefit	Open	10.14%	0%
Elected Appointed Supervisors after 1/1/09	Hybrid	Open	7.88%	0%
General Non Union after 1/1/09	Hybrid	Open	7.27%	0%
Police Officers Association of Michigan hired after 1/1/11	Hybrid	Open	6.28%	0%
46th Trial Court hired after 6/1/11	Hybrid	Open	5.71%	0%
Clerical Local #214 after 1/1/12	Hybrid	Open	6.53%	0%
Teamsters Bus hired after 1/1/11	Hybrid	Open	7.01%	0%
All Full Time Police on/after 1/1/16	Hybrid	Open	5.63%	0%

Net Pension Liability. The County's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.53%
Diversifying strategies	10.00%	6.56%	0.64%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2016 was 8.0% (down from 8.25% in 2015). The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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, 2015	\$ 21,640,550	\$ 12,531,070	\$ 9,109,480
Changes for the year:			
Service cost	349,718	-	349,718
Interest	1,696,843	-	1,696,843
Changes in benefits	(10,695)	-	(10,695)
Differences between expected and actual experience	(503,144)	-	(503,144)
Employer contributions	-	865,641	(865,641)
Employee contributions	-	7,937	(7,937)
Net investment income	-	1,422,497	(1,422,497)
Benefit payments, including refunds of employee contributions	(1,209,751)	(1,209,751)	-
Administrative expense	-	(28,053)	28,053
Net changes	<u>322,971</u>	<u>1,058,271</u>	<u>(735,300)</u>
Balances at December 31, 2016	<u>\$ 21,963,521</u>	<u>\$ 13,589,341</u>	<u>\$ 8,374,180</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the County, calculated using the discount rate of 8.0%, 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	\$ 10,858,126	\$ 8,374,180	\$ 6,265,637

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

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

For the year ended December 31, 2017, the County recognized pension expense of \$1,630,637. The County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 503,939	\$ -	\$ 503,939
Difference between expected and actual experience	362,103	377,358	(15,255)
Changes in assumptions	518,441	-	518,441
	<u>1,384,483</u>	<u>377,358</u>	<u>1,007,125</u>
Contributions subsequent to the measurement	1,225,718	-	1,225,718
Total	<u>\$ 2,610,201</u>	<u>\$ 377,358</u>	<u>\$ 2,232,843</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended December 31,	Amount
2018	\$ 527,082
2019	527,081
2020	39,875
2021	<u>(86,913)</u>
Total	<u>\$ 1,007,125</u>

Payable to the Pension Plan. At December 31, 2017, the County reported a payable of \$14,091 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017.

Road Commission - Component Unit

Description of Plan and Plan Assets. The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.50% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2017.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

18. DEFERRED COMPENSATION PLAN

Primary Government

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

Commission on Aging

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

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

Component Unit - Sportsplex

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

19. OTHER POSTEMPLOYMENT BENEFITS

Primary government

Plan Description. Otsego County administers a single-employer defined benefit healthcare plan (the "Plan"). The plan provides healthcare benefits for eligible employees upon retirement, through the County's group health insurance plan, which covers both active and retired members. The benefits are provided under the collective bargaining agreement for union employees and by personnel policies for nonunion employees. At December 31, 2017, the date of the last plan valuation, the County's healthcare plan covered 29 members of which 10 were active plan members and 19 were retirees receiving benefits.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

Funding policy. Contribution requirements also are negotiated between the County and employees. The County contributes 80% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2017, the County contributed \$66,774 to the plan.

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

Annual required contribution	\$ 150,887
Interest on net OPEB obligation	68,694
Adjustment to annual required contribution	<u>(115,640)</u>
Net OPEB cost	103,941
Contributions made	<u>(66,774)</u>
Increase in net OPEB	37,167
Net OPEB obligation, beginning of year	<u>2,173,865</u>
Net OPEB obligation, end of year	<u><u>\$ 2,211,032</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 188,704	126%	\$ 1,935,870
12/31/2016	184,937	42%	2,173,865
12/31/2017	103,941	64%	2,211,032

Funded Status and Funding Progress. As of December 31, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,930,701, all of which was unfunded.

OTSEGO COUNTY, MICHIGAN

Notes to Financial Statements

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

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

In the December 31, 2017 actuarial valuation, the entry age actuarial normal (level percent) cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after six years.

Road Commission - Component Unit

The Otsego County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the Road Commissions group health insurance plan, which covers both active and retired members.

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

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

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	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable for:				
Inventories	\$ 16,855	\$ -	\$ -	\$ 16,855
Other assets	7,930	-	-	7,930
	<u>24,785</u>	<u>-</u>	<u>-</u>	<u>24,785</u>
Restricted for:				
Housing projects	-	149,979	-	149,979
Public safety	-	-	1,946,605	1,946,605
Health and welfare	-	-	122,436	122,436
Recreation and culture	-	-	4,864,236	4,864,236
University center	-	-	279,286	279,286
Debt service	-	-	14,864	14,864
Recycling	-	-	146,143	146,143
Register of Deeds	-	-	99,938	99,938
Law Library	-	-	17,173	17,173
Bradford Lake Dam	-	-	20,072	20,072
Total restricted	<u>-</u>	<u>149,979</u>	<u>7,510,753</u>	<u>7,660,732</u>
Committed for:				
Pension contributions	150,000	-	-	150,000
Work Camp	-	-	16,975	16,975
Friend of the Court	-	-	312,022	312,022
Child Care Probate	-	-	220,797	220,797
Equipment	-	-	67,381	67,381
Public improvements	-	-	3,000,199	3,000,199
Total committed	<u>150,000</u>	<u>-</u>	<u>3,617,374</u>	<u>3,767,374</u>
Unassigned (deficit)	<u>4,693,890</u>	<u>-</u>	<u>(192,351)</u>	<u>4,501,539</u>
Total fund balances, governmental funds	<u><u>\$ 4,868,675</u></u>	<u><u>\$ 149,979</u></u>	<u><u>\$ 10,935,776</u></u>	<u><u>\$ 15,954,430</u></u>

OTSEGO COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

21. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION

The composition of net investment in capital assets as of December 31, 2017, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 2,805,028	\$ 99,998	\$ 10,894,984
Capital assets being depreciated, net	7,839,905	6,841,710	24,699,554
	<u>10,644,933</u>	<u>6,941,708</u>	<u>35,594,538</u>
Less related debt:			
Total installment debt	3,398,335	-	1,986,089
Less: Otsego County Road Commission lease payable	(690,000)	-	-
	<u>2,708,335</u>	<u>-</u>	<u>1,986,089</u>
Net investment in capital assets	<u>\$ 7,936,598</u>	<u>\$ 6,941,708</u>	<u>\$ 33,608,449</u>

The composition of restricted net position as of December 31, 2017, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Net position restricted for:			
Housing projects	\$ 2,477,770	\$ -	\$ -
Public safety	1,946,605	-	-
Health and welfare	122,436	-	-
Recreation and culture	4,864,236	-	-
University center	279,286	-	-
Debt service	6,431	-	-
Recycling	146,143	-	-
Register of Deeds	99,938	-	-
Law Library	17,173	-	-
Bradford Lake Dam	20,072	-	-
Commission on Aging	-	-	44,000
Total restricted net position	<u>\$ 9,980,090</u>	<u>\$ -</u>	<u>\$ 44,000</u>

22. SPECIAL ITEM - TRANSFER OF OPERATIONS

Effective January 1, 2017, the operations of the University Center transferred to Kirtland Community College. The County maintains a special revenue University Center fund for collection of a certain tax millage and payment on the University Center building bond and, additionally, retained ownership of all the capital assets related to the University Center.

OTSEGO COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

23. SUBSEQUENT EVENTS / COMMITMENTS

Iron Belle Trail

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

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

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

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

Construction is anticipated to span 2017 and 2018.

Library Expansion Project

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

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

The expansion is anticipated to be completed in the Fall of 2018.

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	<u>220,000</u>
Total estimated cost of the Trailhead Project	<u><u>\$ 920,000</u></u>

The trailhead project is estimated to be completed in the Summer of 2019.

OTSEGO COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Road Commission

After fiscal year end, the Road Commission executed equipment purchases amounting to approximately \$68,000. Additionally, the Road Commission established a Public Act 115 Health Care Trust in January 2018 with a \$100,000 contribution.

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REQUIRED SUPPLEMENTARY INFORMATION

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Year Ended December 31		
	2017	2016	2015
Total pension liability			
Service cost	\$ 349,718	\$ 348,000	\$ 338,932
Interest	1,696,843	1,543,901	1,479,439
Changes in benefits	(10,695)	-	-
Differences between expected and actual experience	(503,144)	724,207	-
Changes in assumptions	-	1,036,885	-
Benefit payments, including refunds of employee contributions	(1,209,751)	(1,104,777)	(978,368)
Net change in total pension liability	322,971	2,548,216	840,003
Total pension liability, beginning of year	21,640,550	19,092,334	18,252,331
Total pension liability, end of year	21,963,521	21,640,550	19,092,334
Plan fiduciary net position			
Employer contributions	865,641	693,476	640,433
Employee contributions	7,937	5,905	3,630
Net investment (loss) income	1,422,497	(195,083)	800,044
Benefit payments, including refunds of employee contributions	(1,209,751)	(1,104,777)	(978,368)
Administrative expense	(28,053)	(28,591)	(29,357)
Net change in plan fiduciary net position	1,058,271	(629,070)	436,382
Plan fiduciary net position, beginning of year	12,531,070	13,160,140	12,723,758
Plan fiduciary net position, end of year	13,589,341	12,531,070	13,160,140
County's net pension liability	\$ 8,374,180	\$ 9,109,480	\$ 5,932,194
Plan fiduciary net position as a percentage of total pension liability	61.9%	57.9%	68.9%
Covered payroll	\$ 4,547,735	\$ 4,390,047	\$ 4,188,926
County's net pension liability as a percentage of covered payroll	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 the Net Pension Liability

Fiscal Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 19,092,334	\$ 13,160,140	\$ 5,932,194	68.9%	\$ 4,188,926	141.62%
2016	21,640,550	12,531,070	9,109,480	57.9%	4,390,047	207.50%
2017	21,963,521	13,589,341	8,374,180	61.9%	4,547,735	184.14%

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

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

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending December 31,	Actuarially Determined Contribution ⁽²⁾	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll ⁽¹⁾	Contributions as Percentage of Covered Payroll
2008	\$ 590,169	\$ 590,169	\$ -	\$ 4,441,009	13.29%
2009	633,642	633,642	-	4,426,638	14.31%
2010	716,885	716,885	-	4,385,025	16.35%
2011	565,476	565,476	-	4,400,424	12.85%
2012	705,702	705,702	-	4,014,917	17.58%
2013	727,962	727,962	-	4,080,889	17.84%
2014	640,433	640,433	-	4,188,926	15.29%
2015	693,477	693,477	-	4,390,047	15.80%
2016	715,641	865,641	(150,000)	4,547,735	19.03%
2017	856,396	1,106,396	(250,000)	4,575,021	24.18%

(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	3.05 to 4.0%
Salary increases	4.5% in the long-term (2.0% and 3.0% for calendars years 2015 and 2016, respectively)
Investment rate of return	8.0%, 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, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
Mortality	1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

OTSEGO COUNTY, MICHIGAN

Required Supplementary Information Other Postemployment Benefits Plan (Primary Government)

Schedule of Funding Progress Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2011	\$ -	\$ 3,742,809	\$ 3,741,809	0.0%	\$ 1,572,403	238.0%
12/31/2014	-	2,537,155	2,537,155	0.0%	745,953	340.1%
12/31/2017	-	1,930,701	1,930,701	0.0%	-N/A-	-N/A-

Schedule of Employer Contributions Other Postemployment Benefits Plan

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2015	\$ 237,772	45%
2016	239,478	32%
2017	150,887	44%

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2017

	Special Revenue	Capital Projects	Total
Assets			
Cash and cash equivalents	\$ 2,526,384	\$ 4,680,897	\$ 7,207,281
Investments	1,704,018	1,688,333	3,392,351
Receivables, net:			
Accounts	229,564	148,450	378,014
Property taxes	2,165,683	693,335	2,859,018
Due from other governments	190,336	50,000	240,336
Advances to other funds		32,119	32,119
Advances to component units	-	269,366	269,366
	<u>-</u>	<u>269,366</u>	<u>269,366</u>
Total assets	<u>\$ 6,815,985</u>	<u>\$ 7,562,500</u>	<u>\$ 14,378,485</u>
Liabilities			
Accounts payable	\$ 242,097	\$ 117,041	\$ 359,138
Accrued liabilities	15,142	-	15,142
Due to other governments	8,839	-	8,839
Unearned revenue	200,572	-	200,572
	<u>466,650</u>	<u>117,041</u>	<u>583,691</u>
Total liabilities	<u>466,650</u>	<u>117,041</u>	<u>583,691</u>
Deferred inflows of resources			
Taxes levied for a subsequent period	2,165,683	693,335	2,859,018
	<u>2,165,683</u>	<u>693,335</u>	<u>2,859,018</u>
Fund balances			
Restricted	3,566,477	3,944,276	7,510,753
Committed	617,175	3,000,199	3,617,374
Unassigned (deficit)	-	(192,351)	(192,351)
	<u>-</u>	<u>(192,351)</u>	<u>(192,351)</u>
Total fund balances	<u>4,183,652</u>	<u>6,752,124</u>	<u>10,935,776</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,815,985</u>	<u>\$ 7,562,500</u>	<u>\$ 14,378,485</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Governmental Funds

For the Year Ended December 31, 2017

	Special Revenue	Capital Projects	Total
Revenues			
Taxes	\$ 1,985,569	\$ 653,163	\$ 2,638,732
Federal sources	313,491	100,000	413,491
State sources	359,013	30,000	389,013
Local sources	509,325	90,050	599,375
Charges for services	1,076,386	48,783	1,125,169
Fines and forfeits	191,708	-	191,708
Interest and rentals	57,737	34,130	91,867
Other	999,521	774,844	1,774,365
Total revenues	5,492,750	1,730,970	7,223,720
Expenditures			
Judicial	434,708	-	434,708
General government	945,486	-	945,486
Public safety	1,637,468	50,000	1,687,468
Public works	-	369,920	369,920
Health and welfare	720,697	-	720,697
Recreation and culture	1,371,168	162,201	1,533,369
Other	-	387,290	387,290
Contribution to other governmental units	-	121,440	121,440
Debt service:			
Principal	114,115	-	114,115
Interest and fiscal charges	3,471	-	3,471
Total expenditures	5,227,113	1,090,851	6,317,964
Revenues over expenditures	265,637	640,119	905,756
Other financing sources (uses)			
Proceeds from issuance of long-term debt	-	2,250,000	2,250,000
Premium on long-term debt	-	24,158	24,158
Transfers in	594,828	1,068,905	1,663,733
Transfers out	(698,355)	(398,713)	(1,097,068)
Total other financing sources (uses)	(103,527)	2,944,350	2,840,823
Net change in fund balances	162,110	3,584,469	3,746,579
Fund balances, beginning of year	4,021,542	3,167,655	7,189,197
Fund balances, end of year	\$ 4,183,652	\$ 6,752,124	\$ 10,935,776

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OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2017

	Work Camp	Parks and Recreation	Groen Nature Preserve	University Center
Assets				
Cash and cash equivalents	\$ 15,538	\$ 58,998	\$ 218,430	\$ 275,884
Investments	-	285,282	-	3,402
Receivables:				
Accounts	-	3,917	10	-
Property taxes	-	308,111	-	686,778
Due from other governments	3,445	-	-	-
Total assets	<u>\$ 18,983</u>	<u>\$ 656,308</u>	<u>\$ 218,440</u>	<u>\$ 966,064</u>
Liabilities				
Accounts payable	\$ 1,095	\$ 12,742	\$ 54,123	\$ -
Accrued liabilities	913	1,922	426	-
Due to other governments	-	-	-	-
Unearned revenue	-	66,772	133,800	-
Total liabilities	<u>2,008</u>	<u>81,436</u>	<u>188,349</u>	<u>-</u>
Deferred inflows of resources				
Taxes levied for a subsequent period	-	308,111	-	686,778
Fund balances				
Restricted	-	266,761	30,091	279,286
Committed	16,975	-	-	-
Total fund balances	<u>16,975</u>	<u>266,761</u>	<u>30,091</u>	<u>279,286</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 18,983</u>	<u>\$ 656,308</u>	<u>\$ 218,440</u>	<u>\$ 966,064</u>

Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling Funds	Gypsy Moth Control
\$ 267,964	\$ 111,220	\$ 8,173	\$ 47,586	\$ 114,389
-	287,884	-	140,000	-
-	-	-	-	-
-	369,945	-	307,644	-
56,151	3,332	-	-	-
<u>\$ 324,115</u>	<u>\$ 772,381</u>	<u>\$ 8,173</u>	<u>\$ 495,230</u>	<u>\$ 114,389</u>
\$ 7,061	\$ 12,129	\$ -	\$ 41,443	\$ -
5,032	3,081	-	-	-
-	-	-	-	-
-	-	-	-	-
12,093	15,210	-	41,443	-
-	369,945	-	307,644	-
-	387,226	8,173	146,143	114,389
312,022	-	-	-	-
312,022	387,226	8,173	146,143	114,389
<u>\$ 324,115</u>	<u>\$ 772,381</u>	<u>\$ 8,173</u>	<u>\$ 495,230</u>	<u>\$ 114,389</u>

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OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2017

	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation Fund	Library
Assets				
Cash and cash equivalents	\$ 14,864	\$ 728,791	\$ 101,610	\$ 32,953
Investments	-	212,348	-	520,102
Receivables:				
Accounts	-	-	225	94,527
Property taxes	-	-	-	493,205
Due from other governments	-	-	-	-
Total assets	<u>\$ 14,864</u>	<u>\$ 941,139</u>	<u>\$ 101,835</u>	<u>\$ 1,140,787</u>
Liabilities				
Accounts payable	\$ -	\$ 6,335	\$ 1,897	\$ 24,474
Accrued liabilities	-	1,585	-	-
Due to other governments	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>7,920</u>	<u>1,897</u>	<u>24,474</u>
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	-	493,205
Fund balances				
Restricted	14,864	933,219	99,938	623,108
Committed	-	-	-	-
Total fund balances	<u>14,864</u>	<u>933,219</u>	<u>99,938</u>	<u>623,108</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,864</u>	<u>\$ 941,139</u>	<u>\$ 101,835</u>	<u>\$ 1,140,787</u>

Emergency 911 Funds	Concealed Pistol Licensing	Local Officers Training	Law Library	Department of Human Services
\$ 157,268	\$ 22,666	\$ 22,076	\$ 17,173	\$ 4,301
250,000	-	-	-	5,000
130,761	124	-	-	-
-	-	-	-	-
36,410	-	-	-	-
<u>\$ 574,439</u>	<u>\$ 22,790</u>	<u>\$ 22,076</u>	<u>\$ 17,173</u>	<u>\$ 9,301</u>
\$ 1,152	\$ 166	\$ -	\$ -	\$ 1,254
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>1,152</u>	<u>166</u>	<u>-</u>	<u>-</u>	<u>1,254</u>
-	-	-	-	-
573,287	22,624	22,076	17,173	8,047
-	-	-	-	-
<u>573,287</u>	<u>22,624</u>	<u>22,076</u>	<u>17,173</u>	<u>8,047</u>
<u>\$ 574,439</u>	<u>\$ 22,790</u>	<u>\$ 22,076</u>	<u>\$ 17,173</u>	<u>\$ 9,301</u>

Continued...

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Special Revenue Funds
December 31, 2017

	Child Care Probate	Veteran's Trust	Equipment Revolving	Bradford Lake Dam	Total
Assets					
Cash and cash equivalents	\$ 200,757	\$ -	\$ 85,671	\$ 20,072	\$ 2,526,384
Investments	-	-	-	-	1,704,018
Receivables:					
Accounts	-	-	-	-	229,564
Property taxes	-	-	-	-	2,165,683
Due from other governments	90,998	-	-	-	190,336
Total assets	<u>\$ 291,755</u>	<u>\$ -</u>	<u>\$ 85,671</u>	<u>\$ 20,072</u>	<u>\$ 6,815,985</u>
Liabilities					
Accounts payable	\$ 59,936	\$ -	\$ 18,290	\$ -	\$ 242,097
Accrued liabilities	2,183	-	-	-	15,142
Due to other governments	8,839	-	-	-	8,839
Unearned revenue	-	-	-	-	200,572
Total liabilities	<u>70,958</u>	<u>-</u>	<u>18,290</u>	<u>-</u>	<u>466,650</u>
Deferred inflows of resources					
Taxes levied for a subsequent period	-	-	-	-	2,165,683
Fund balances					
Restricted	-	-	-	20,072	3,566,477
Committed	220,797	-	67,381	-	617,175
Total fund balances	<u>220,797</u>	<u>-</u>	<u>67,381</u>	<u>20,072</u>	<u>4,183,652</u>
Total liabilities, inflows of resources, and fund balances	<u>\$ 291,755</u>	<u>\$ -</u>	<u>\$ 85,671</u>	<u>\$ 20,072</u>	<u>\$ 6,815,985</u>

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OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended December 31, 2017

	Work Camp	Parks and Recreation	Groen Nature Preserve	University Center
Revenues				
Taxes	\$ -	\$ 218,747	\$ -	\$ 649,969
Federal sources	-	-	-	-
State sources	-	19,000	-	-
Local sources	-	-	-	509,325
Charges for services	47,030	225,692	-	-
Fines and forfeits	-	-	-	-
Interest and rentals	337	9,142	-	3,511
Other revenue	94	13,909	130,764	8,153
Total revenues	47,461	486,490	130,764	1,170,958
Expenditures				
Judicial	-	-	-	-
General government	-	-	-	427,722
Public safety	147,045	-	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	491,908	118,057	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	147,045	491,908	118,057	427,722
Revenues over (under) expenditures	(99,584)	(5,418)	12,707	743,236
Other financing sources (uses)				
Transfers in	25,670	425	-	-
Transfers out	-	-	-	(463,950)
Total other financing sources (uses)	25,670	425	-	(463,950)
Net change in fund balances	(73,914)	(4,993)	12,707	279,286
Fund balances, beginning of year	90,889	271,754	17,384	-
Fund balances, end of year	\$ 16,975	\$ 266,761	\$ 30,091	\$ 279,286

Friend of the Court	Animal Control	Animal Control Forfeited Funds	Recycling Fund	Gypsy Moth Control
\$ -	\$ 350,117	\$ -	\$ 291,628	\$ -
313,491	-	-	-	-
39,788	-	-	-	-
-	-	-	-	-
32,150	45,457	-	-	-
-	415	-	-	-
-	8,695	13	3,022	201
-	21,149	-	2,133	-
<u>385,429</u>	<u>425,833</u>	<u>13</u>	<u>296,783</u>	<u>201</u>
434,708	-	-	-	-
-	-	-	363,604	-
-	427,300	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>434,708</u>	<u>427,300</u>	<u>-</u>	<u>363,604</u>	<u>-</u>
<u>(49,279)</u>	<u>(1,467)</u>	<u>13</u>	<u>(66,821)</u>	<u>201</u>
113,764	700	-	-	-
-	-	-	-	-
<u>113,764</u>	<u>700</u>	<u>-</u>	<u>-</u>	<u>-</u>
64,485	(767)	13	(66,821)	201
<u>247,537</u>	<u>387,993</u>	<u>8,160</u>	<u>212,964</u>	<u>114,188</u>
<u>\$ 312,022</u>	<u>\$ 387,226</u>	<u>\$ 8,173</u>	<u>\$ 146,143</u>	<u>\$ 114,389</u>

Continued...

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended December 31, 2017

	Brownfield Redevelopment Authority	Building Department	Register of Deeds Automation Fund	Library
Revenues				
Taxes	\$ 5,077	\$ -	\$ -	\$ 470,031
Federal sources	-	-	-	-
State sources	-	-	-	15,806
Local sources	-	-	-	-
Charges for services	-	527,223	37,810	-
Fines and forfeits	-	-	-	191,293
Interest and rentals	-	5,195	-	19,446
Other revenue	-	-	-	235,207
Total revenues	5,077	532,418	37,810	931,783
Expenditures				
Judicial	-	-	-	-
General government	-	-	16,439	-
Public safety	-	398,381	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	-	-	758,928
Debt service:				
Principal	114,115	-	-	-
Interest and fiscal charges	3,471	-	-	-
Total expenditures	117,586	398,381	16,439	758,928
Revenues over (under) expenditures	(112,509)	134,037	21,371	172,855
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	(6,000)	-	(211,405)
Total other financing sources (uses)	-	(6,000)	-	(211,405)
Net change in fund balances	(112,509)	128,037	21,371	(38,550)
Fund balances, beginning of year	127,373	805,182	78,567	661,658
Fund balances, end of year	\$ 14,864	\$ 933,219	\$ 99,938	\$ 623,108

Emergency 911 Funds	Concealed Pistol Licensing	Local Officers Training	Law Library	Department of Human Services
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
148,759	12,265	-	-	-
-	-	-	-	-
7,081	-	-	-	51
516,947	-	-	3,499	-
<u>672,787</u>	<u>12,265</u>	<u>-</u>	<u>3,499</u>	<u>51</u>
-	-	-	-	-
-	-	-	-	-
653,216	6,996	4,530	-	-
-	-	-	-	6,048
-	-	-	2,275	-
-	-	-	-	-
-	-	-	-	-
<u>653,216</u>	<u>6,996</u>	<u>4,530</u>	<u>2,275</u>	<u>6,048</u>
<u>19,571</u>	<u>5,269</u>	<u>(4,530)</u>	<u>1,224</u>	<u>(5,997)</u>
-	-	-	-	8,904
(17,000)	-	-	-	-
<u>(17,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,904</u>
2,571	5,269	(4,530)	1,224	2,907
<u>570,716</u>	<u>17,355</u>	<u>26,606</u>	<u>15,949</u>	<u>5,140</u>
<u>\$ 573,287</u>	<u>\$ 22,624</u>	<u>\$ 22,076</u>	<u>\$ 17,173</u>	<u>\$ 8,047</u>

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OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended December 31, 2017

	Child Care Probate	Veteran's Trust	Equipment Revolving	Bradford Lake Dam	Total
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,985,569
Federal sources	-	-	-	-	313,491
State sources	282,981	1,438	-	-	359,013
Local sources	-	-	-	-	509,325
Charges for services	-	-	-	-	1,076,386
Fines and forfeits	-	-	-	-	191,708
Interest and rentals	-	-	1,039	4	57,737
Other revenue	54,850	-	12,816	-	999,521
Total revenues	337,831	1,438	13,855	4	5,492,750
Expenditures					
Judicial	-	-	-	-	434,708
General government	-	-	137,721	-	945,486
Public safety	-	-	-	-	1,637,468
Health and welfare	712,645	2,004	-	-	720,697
Recreation and culture	-	-	-	-	1,371,168
Debt service:					
Principal	-	-	-	-	114,115
Interest and fiscal charges	-	-	-	-	3,471
Total expenditures	712,645	2,004	137,721	-	5,227,113
Revenues over (under) expenditures	(374,814)	(566)	(123,866)	4	265,637
Other financing sources (uses)					
Transfers in	350,065	-	95,300	-	594,828
Transfers out	-	-	-	-	(698,355)
Total other financing sources (uses)	350,065	-	95,300	-	(103,527)
Net change in fund balances	(24,749)	(566)	(28,566)	4	162,110
Fund balances, beginning of year	245,546	566	95,947	20,068	4,021,542
Fund balances, end of year	\$ 220,797	\$ -	\$ 67,381	\$ 20,072	\$ 4,183,652

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OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 December 31, 2017

	EMS Building Capital Project Fund	Library Building	Library Construction Millage	Court Restoration Building
Assets				
Cash and cash equivalents	\$ 2,536	\$ 294,566	\$ 157,808	\$ 72,811
Investments	-	500,000	280,854	-
Receivables:				
Accounts	-	-	-	-
Property taxes	335	-	462,366	-
Due from other governments	-	-	-	-
Advances to other funds	-	-	-	-
Advances to component units	-	-	-	-
Total assets	\$ 2,871	\$ 794,566	\$ 901,028	\$ 72,811
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 7,842
Deferred inflows of resources				
Taxes levied for a subsequent period	335	-	462,366	-
Fund balances				
Restricted	-	-	-	-
Committed	2,536	794,566	438,662	64,969
Unassigned (deficit)	-	-	-	-
Total fund balances	2,536	794,566	438,662	64,969
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,871	\$ 794,566	\$ 901,028	\$ 72,811

Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Sportsplex Building Maintenance	University Center Capital Projects Fund	Library Capital Projects Bond	Sportsplex Tennis Court Construction
\$ 153,973	\$ 28,620	\$ 216	\$ 6,614	\$ 417,882	\$ 1,640,246	\$ (188,117)
-	-	-	250,000	391,534	-	-
-	-	-	-	-	-	-
-	-	-	230,634	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 153,973</u>	<u>\$ 28,620</u>	<u>\$ 216</u>	<u>\$ 487,248</u>	<u>\$ 809,416</u>	<u>\$ 1,640,246</u>	<u>\$ (188,117)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,616	\$ 4,234
-	-	-	230,634	-	-	-
-	-	-	256,614	-	1,545,630	-
153,973	28,620	216	-	809,416	-	-
-	-	-	-	-	-	(192,351)
<u>153,973</u>	<u>28,620</u>	<u>216</u>	<u>256,614</u>	<u>809,416</u>	<u>1,545,630</u>	<u>(192,351)</u>
<u>\$ 153,973</u>	<u>\$ 28,620</u>	<u>\$ 216</u>	<u>\$ 487,248</u>	<u>\$ 809,416</u>	<u>\$ 1,640,246</u>	<u>\$ (188,117)</u>

OTSEGO COUNTY, MICHIGAN

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 December 31, 2017

	Iron Belle Trail Capital Project	Capital Projects	Public Improvements Capital Project Fund	Total
Assets				
Cash and cash equivalents	\$ 268,737	\$ 717,590	\$ 1,107,415	\$ 4,680,897
Investments	-	-	265,945	1,688,333
Receivables:				
Accounts	50,000	-	98,450	148,450
Property taxes	-	-	-	693,335
Due from other governments	-	-	50,000	50,000
Advances to other funds	-	-	32,119	32,119
Advances to component units	-	-	269,366	269,366
Total assets	\$ 318,737	\$ 717,590	\$ 1,823,295	\$ 7,562,500
Liabilities				
Accounts payable	-	10,349	-	117,041
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	-	693,335
Fund balances				
Restricted	318,737	-	1,823,295	3,944,276
Committed	-	707,241	-	3,000,199
Unassigned (deficit)	-	-	-	(192,351)
Total fund balances	318,737	707,241	1,823,295	6,752,124
Total liabilities, deferred inflows of resources, and fund balances	\$ 318,737	\$ 717,590	\$ 1,823,295	\$ 7,562,500

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OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Capital Projects Funds

For the Year Ended December 31, 2017

	EMS Building Capital Project Fund	Library Building	Library Construction Millage	Court Restoration Building
Revenues				
Property taxes	\$ 2,517	\$ -	\$ 432,953	\$ -
Federal sources	-	-	-	-
State grants	-	-	-	-
Local sources	-	90,050	-	-
Charges for services	-	-	-	48,561
Interest and rentals	-	7,028	5,709	-
Other revenue	-	-	-	-
Total revenues	2,517	97,078	438,662	48,561
Expenditures				
Public safety	-	-	-	-
Public works	-	-	-	-
Recreation and culture	-	-	-	67,384
Other	-	-	-	-
Contribution to government to other governmental units	-	-	-	-
Total expenditures	-	-	-	67,384
Revenues over (under) expenditures	2,517	97,078	438,662	(18,823)
Other financing sources (uses)				
Proceeds from issuance of long-term debt	-	-	-	-
Premium on long-term debt	-	-	-	-
Transfers in	-	145,501	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	145,501	-	-
Net change in fund balances	2,517	242,579	438,662	(18,823)
Fund balances, beginning of year	19	551,987	-	83,792
Fund balances, end of year	\$ 2,536	\$ 794,566	\$ 438,662	\$ 64,969

Airport Construction	Groen Capital Projects II	Groen Nature Preserve Capital Projects	Sportsplex Building Maintenance	University Center Capital Projects Fund	Library Capital Projects Bond	Sportsplex Tennis Court Construction
\$ -	\$ -	\$ -	\$ 217,693	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
222	-	-	-	-	-	-
-	-	-	4,394	9,407	-	-
-	2,400	-	-	569,459	-	-
<u>222</u>	<u>2,400</u>	<u>-</u>	<u>222,087</u>	<u>578,866</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	236,754	-
-	-	-	94,817	-	-	-
1,474	-	-	-	1,450	177,015	207,351
-	-	-	-	-	-	-
<u>1,474</u>	<u>-</u>	<u>-</u>	<u>94,817</u>	<u>1,450</u>	<u>413,769</u>	<u>207,351</u>
<u>(1,252)</u>	<u>2,400</u>	<u>-</u>	<u>127,270</u>	<u>577,416</u>	<u>(413,769)</u>	<u>(207,351)</u>
-	-	-	-	-	2,250,000	-
-	-	-	-	-	24,158	-
25,000	-	-	-	-	65,904	15,000
<u>(25,050)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,000</u>	<u>(380,663)</u>	<u>-</u>
<u>(50)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,000</u>	<u>1,959,399</u>	<u>15,000</u>
<u>(1,302)</u>	<u>2,400</u>	<u>-</u>	<u>127,270</u>	<u>809,416</u>	<u>1,545,630</u>	<u>(192,351)</u>
<u>155,275</u>	<u>26,220</u>	<u>216</u>	<u>129,344</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 153,973</u>	<u>\$ 28,620</u>	<u>\$ 216</u>	<u>\$ 256,614</u>	<u>\$ 809,416</u>	<u>\$ 1,545,630</u>	<u>\$ (192,351)</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Capital Projects Funds

For the Year Ended December 31, 2017

	Iron Belle Trail Capital Project	Capital Projects	Public Improvements Capital Project Fund	Total
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ 653,163
Federal sources	-	50,000	50,000	100,000
State grants	30,000	-	-	30,000
Local sources	-	-	-	90,050
Charges for services	-	-	-	48,783
Interest and rentals	177	375	7,040	34,130
Other revenue	200,000	2,985	-	774,844
Total revenues	230,177	53,360	57,040	1,730,970
Expenditures				
Public safety	-	-	50,000	50,000
Public works	-	133,166	-	369,920
Recreation and culture	-	-	-	162,201
Other	-	-	-	387,290
Contribution to government to other governmental units	121,440	-	-	121,440
Total expenditures	121,440	133,166	50,000	1,090,851
Revenues over (under) expenditures	108,737	(79,806)	7,040	640,119
Other financing sources (uses)				
Proceeds from issuance of long-term debt	-	-	-	2,250,000
Premium on long-term debt	-	-	-	24,158
Transfers in	210,000	607,500	-	1,068,905
Transfers out	-	(225,000)	-	(398,713)
Total other financing sources (uses)	210,000	382,500	-	2,944,350
Net change in fund balances	318,737	302,694	7,040	3,584,469
Fund balances, beginning of year	-	404,547	1,816,255	3,167,655
Fund balances, end of year	\$ 318,737	\$ 707,241	\$ 1,823,295	\$ 6,752,124

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OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position

Nonmajor Enterprise Funds

December 31, 2017

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Assets			
Current assets:			
Cash and cash equivalents	\$ 359,180	\$ 70,236	\$ 163,666
Investments	1,207,166	-	-
Accounts receivable	-	-	7,193
Prepays	-	-	-
Total current assets	1,566,346	70,236	170,859
Noncurrent assets:			
Capital assets being depreciated, net	-	-	73,783
Total assets	1,566,346	70,236	244,642
Liabilities (all current)			
Accounts payable	1,423	1,200	8,938
Accrued liabilities	830	-	-
Total liabilities	2,253	1,200	8,938
Net position			
Investment in capital assets	-	-	73,783
Unrestricted	1,564,093	69,036	161,921
Total net position	\$ 1,564,093	\$ 69,036	\$ 235,704



Airport Special Events	Advertising I-75 Sign Fund	Jail Commissary	Homestead Audit	Total
\$ 44,712	\$ 3,150	\$ 7,114	\$ 13,259	\$ 661,317
-	-	-	-	1,207,166
1,020	-	-	-	8,213
6,266	-	-	-	6,266
<u>51,998</u>	<u>3,150</u>	<u>7,114</u>	<u>13,259</u>	<u>1,882,962</u>
-	-	-	-	73,783
<u>51,998</u>	<u>3,150</u>	<u>7,114</u>	<u>13,259</u>	<u>1,956,745</u>
2,641	-	3,856	395	18,453
-	-	-	-	830
<u>2,641</u>	<u>-</u>	<u>3,856</u>	<u>395</u>	<u>19,283</u>
-	-	-	-	73,783
<u>49,357</u>	<u>3,150</u>	<u>3,258</u>	<u>12,864</u>	<u>1,863,679</u>
<u>\$ 49,357</u>	<u>\$ 3,150</u>	<u>\$ 3,258</u>	<u>\$ 12,864</u>	<u>\$ 1,937,462</u>

OTSEGO COUNTY, MICHIGAN

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

Nonmajor Enterprise Funds

For the Year Ended December 31, 2017

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Operating revenues			
Charges for services	\$ 102,518	\$ 6,280	\$ 108,866
Local sources	-	5,000	-
Total operating revenues	<u>102,518</u>	<u>11,280</u>	<u>108,866</u>
Operating expenses			
Salaries and fringes	56,231	-	-
Contractual services	-	-	-
Materials and supplies	5,606	25,313	-
Depreciation	-	-	12,300
Other	2,651	-	75,754
Total operating expenses	<u>64,488</u>	<u>25,313</u>	<u>88,054</u>
Operating income (loss)	<u>38,030</u>	<u>(14,033)</u>	<u>20,812</u>
Nonoperating revenues			
Investment earnings	30,651	-	-
Other	42,739	-	-
Total nonoperating revenues	<u>73,390</u>	<u>-</u>	<u>-</u>
Income (loss) before transfers	<u>111,420</u>	<u>(14,033)</u>	<u>20,812</u>
Transfers			
Transfers in	-	17,000	-
Transfers out	(110,000)	-	-
Total transfers	<u>(110,000)</u>	<u>17,000</u>	<u>-</u>
Change in net position	1,420	2,967	20,812
Net position, beginning of year	<u>1,562,673</u>	<u>66,069</u>	<u>214,892</u>
Net position, end of year	<u>\$ 1,564,093</u>	<u>\$ 69,036</u>	<u>\$ 235,704</u>

Airport Special Events	Advertising I-75 Sign Fund	Jail Commissary	Homestead Audit	Total
\$ 97,350	\$ -	\$ 13,620	\$ 245	\$ 328,879
-	-	-	-	5,000
<u>97,350</u>	<u>-</u>	<u>13,620</u>	<u>245</u>	<u>333,879</u>
-	-	-	-	56,231
105,967	-	-	-	105,967
15,049	-	14,140	-	60,108
-	-	-	-	12,300
<u>55,723</u>	<u>252</u>	<u>-</u>	<u>2,012</u>	<u>136,392</u>
<u>176,739</u>	<u>252</u>	<u>14,140</u>	<u>2,012</u>	<u>370,998</u>
<u>(79,389)</u>	<u>(252)</u>	<u>(520)</u>	<u>(1,767)</u>	<u>(37,119)</u>
-	-	-	2,673	33,324
<u>116,677</u>	<u>3,402</u>	<u>-</u>	<u>-</u>	<u>162,818</u>
<u>116,677</u>	<u>3,402</u>	<u>-</u>	<u>2,673</u>	<u>196,142</u>
<u>37,288</u>	<u>3,150</u>	<u>(520)</u>	<u>906</u>	<u>159,023</u>
-	-	-	-	17,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(110,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(93,000)</u>
<u>37,288</u>	<u>3,150</u>	<u>(520)</u>	<u>906</u>	<u>66,023</u>
<u>12,069</u>	<u>-</u>	<u>3,778</u>	<u>11,958</u>	<u>1,871,439</u>
<u>\$ 49,357</u>	<u>\$ 3,150</u>	<u>\$ 3,258</u>	<u>\$ 12,864</u>	<u>\$ 1,937,462</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the Year Ended December 31, 2017

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network
Cash flows from operating activities			
Receipts from customers	\$ 104,874	\$ 11,280	\$ 107,160
Payments to suppliers	(63,838)	(25,313)	(73,931)
Net cash provided by (used in) operating activities	<u>41,036</u>	<u>(14,033)</u>	<u>33,229</u>
Cash flows from noncapital financing activities			
Other receipts	42,739	-	-
Transfers in	-	17,000	-
Transfers out	(110,000)	-	-
Net cash provided by (used in) noncapital financing activities	<u>(67,261)</u>	<u>17,000</u>	<u>-</u>
Cash flows from investing activities			
Proceeds from sale of investments	173,586	-	-
Interest received on investments	30,651	-	-
Net cash provided by investing activities	<u>204,237</u>	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	178,012	2,967	33,229
Cash and cash equivalents, beginning of year	181,168	67,269	130,437
Cash and cash equivalents, end of year	<u>\$ 359,180</u>	<u>\$ 70,236</u>	<u>\$ 163,666</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 38,030	\$ (14,033)	\$ 20,812
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	-	12,300
Change in operating assets and liabilities that provided (used) cash:			
Accounts receivable	2,356	-	(1,706)
Prepays	-	-	-
Accounts payable	256	-	1,823
Accrued liabilities	394	-	-
Net cash provided by (used in) operating activities	<u>\$ 41,036</u>	<u>\$ (14,033)</u>	<u>\$ 33,229</u>

Airport Special Events	Advertising I-75 Sign Fund	Jail Commissary	Homestead Audit	Total
\$ 96,330 (180,435)	\$ - (252)	\$ 18,741 (11,959)	\$ 245 (1,617)	\$ 338,630 (357,345)
<u>(84,105)</u>	<u>(252)</u>	<u>6,782</u>	<u>(1,372)</u>	<u>(18,715)</u>
116,677	3,402	-	-	162,818
-	-	-	-	17,000
-	-	-	-	(110,000)
<u>116,677</u>	<u>3,402</u>	<u>-</u>	<u>-</u>	<u>69,818</u>
-	-	-	-	173,586
-	-	-	2,673	33,324
-	-	-	2,673	206,910
32,572	3,150	6,782	1,301	258,013
12,140	-	332	11,958	403,304
-	-	-	-	-
<u>\$ 44,712</u>	<u>\$ 3,150</u>	<u>\$ 7,114</u>	<u>\$ 13,259</u>	<u>\$ 661,317</u>
\$ (79,389)	\$ (252)	\$ (520)	\$ (1,767)	\$ (37,119)
-	-	-	-	12,300
(1,020)	-	5,121	-	4,751
(6,266)	-	-	-	(6,266)
2,570	-	2,181	395	7,225
-	-	-	-	394
<u>\$ (84,105)</u>	<u>\$ (252)</u>	<u>\$ 6,782</u>	<u>\$ (1,372)</u>	<u>\$ (18,715)</u>

OTSEGO COUNTY, MICHIGAN

Combining Statement of Net Position Internal Service Funds December 31, 2017

	Building and Grounds	Administrative Services	Health Care	Total
Assets (all current)				
Cash and cash equivalents	\$ 56,634	\$ 65,893	\$ 40,021	\$ 162,548
Investments	-	-	200,000	200,000
Accounts receivable, net	4,786	38	7,184	12,008
Inventories	-	325	-	325
Prepays	59,426	-	91,689	151,115
Total assets	120,846	66,256	338,894	525,996
Liabilities (all current)				
Accounts payable	13,248	2,586	1,772	17,606
Accrued liabilities	-	1,656	-	1,656
Total liabilities	13,248	4,242	1,772	19,262
Net position				
Unrestricted	107,598	62,014	337,122	506,734
Total net position	\$ 107,598	\$ 62,014	\$ 337,122	\$ 506,734

OTSEGO COUNTY, MICHIGAN

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

Internal Service Funds

For the Year Ended December 31, 2017

	Building and Grounds	Administrative Services	Health Care	Total
Operating revenues				
Charges for services	\$ 418,235	\$ 609,596	\$ 1,226,624	\$ 2,254,455
Operating expenses				
Salaries and fringes	-	555,736	1,239,639	1,795,375
Contractual services	243,640	-	-	243,640
Materials and supplies	3,229	7,256	21,786	32,271
Equipment repair and maintenance	17,145	997	-	18,142
Utilities	186,497	552	-	187,049
Other	3,956	11,532	-	15,488
Total operating expenses	454,467	576,073	1,261,425	2,291,965
Operating income (loss)	(36,232)	33,523	(34,801)	(37,510)
Nonoperating revenues				
Investment earnings	-	-	4,820	4,820
Income (loss) before transfers	(36,232)	33,523	(29,981)	(32,690)
Transfers				
Transfers in	-	12,677	11,772	24,449
Change in net position	(36,232)	46,200	(18,209)	(8,241)
Net position, beginning of year	143,830	15,814	355,331	514,975
Net position, end of year	\$ 107,598	\$ 62,014	\$ 337,122	\$ 506,734

OTSEGO COUNTY, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended December 31, 2017

	Building and Grounds	Administrative Services	Health Care	Total
Cash flows from operating activities				
Internal activity - receipts from other funds	\$ 418,099	\$ 609,596	\$ 1,225,117	\$ 2,252,812
Payments to suppliers	(520,579)	(23,488)	-	(544,067)
Payments to employees for services and benefits	-	(555,686)	(1,258,519)	(1,814,205)
Net cash provided by (used in) operating activities	(102,480)	30,422	(33,402)	(105,460)
Cash flows provided by noncapital financing activities				
Transfers in	-	12,677	11,772	24,449
Cash flows from investing activities				
Interest received on investments	-	-	4,820	4,820
Net change in cash and cash equivalents	(102,480)	43,099	(16,810)	(76,191)
Cash and cash equivalents, beginning of year	159,114	22,794	56,831	238,739
Cash and cash equivalents, end of year	\$ 56,634	\$ 65,893	\$ 40,021	\$ 162,548
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (36,232)	\$ 33,523	\$ (34,801)	\$ (37,510)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Change in operating assets and liabilities that provided (used) cash:				
Accounts receivable	(136)	-	(1,507)	(1,643)
Prepays	(59,426)	-	1,134	(58,292)
Accounts payable	(6,686)	(3,151)	1,772	(8,065)
Accrued liabilities	-	50	-	50
Net cash provided by (used in) operating activities	\$ (102,480)	\$ 30,422	\$ (33,402)	\$ (105,460)

OTSEGO COUNTY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Fiduciary Funds
December 31, 2017

	General Agency Fund	Payroll Imprest Fund	Library Penal Fines	Michigan Municipal Risk Management Authority	Total
Assets					
Cash and cash equivalents	\$ 1,670,768	\$ 247,979	\$ 95,989	\$ 322,492	\$ 2,337,228
Liabilities					
Undistributed tax collections	\$ 1,315,141	\$ -	\$ -	\$ -	\$ 1,315,141
Bonds, restitutions, and payables to others	355,627	247,979	95,989	322,492	1,022,087
Total liabilities	\$ 1,670,768	\$ 247,979	\$ 95,989	\$ 322,492	\$ 2,337,228

INTERNAL CONTROL AND COMPLIANCE

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

June 28, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 28, 2018. Our report includes a reference to other auditors who audited the financial statements of Otsego County Road Commission and Otsego County Commission on Aging discretely presented component units, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Otsego County Commission on Aging were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Otsego County's Response to Finding

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

Purpose of this Report

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

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

OTSEGO COUNTY, MICHIGAN

Schedule of Findings and Responses

For the Year Ended December 31, 2017

2017-001 - Material Audit Adjustments

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 and component units which included, due from other governments, taxes receivable, capital assets and long-term debt.

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.

