

*City of Otsego*  
*Allegan County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended June 30, 2017*

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## INDEPENDENT AUDITOR'S REPORT

City Commission  
City of Otsego, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required supplementary information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the 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.

### *Supplementary information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Otsego, Michigan's basic financial statements. The combining nonmajor fund, individual fund, and component unit financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund, individual fund, and component unit financial statements and schedules (supplementary information) 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Siegfried Crandall P.C.*

October 18, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# **City of Otsego, Michigan**

## **Management's Discussion and Analysis**

The following discussion and analysis is intended as a narrative overview of the City of Otsego, Michigan's (the City) operations over the fiscal year and its financial condition on June 30, 2017. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

- The City's total net position increased by \$698,519, or 5 percent, as a result of this year's operations. The net position of the governmental activities increased by \$644,699, and the net position of the business-type activities increased by \$53,820.
- Of the \$14,762,268 total net position reported, \$3,122,884 is available to be used to meet future operating and capital improvement needs, without constraints established by debt covenants, enabling legislation, or other legal requirements.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$927,886, which represents 40 percent of the actual total General Fund expenditures for the fiscal year.

### **Overview of the financial statements**

This discussion and analysis introduces the City's basic financial statements that follow this section and includes a comparative analysis of the basic financial statements using summarized information from the current and prior year's government-wide financial statements.

The City's annual report is comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. Additional supplementary information is also included to provide a more detailed view of the City's financial structure and to support the information provided in the basic financial statements.

### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a format similar to that of private-sector financial statements. The Statement of Net Position and the Statement of Activities are designed to be corporate-like, in that all the governmental and business-type activities are consolidated into columns that add to a total for the primary government. These statements should help the reader to answer the question: Is the City, as a whole, in a better or worse financial position as a result of this year's activities? These statements include all nonfiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized, regardless of when cash is received or paid.

The Statement of Net Position reports all of the City's assets and liabilities, along with the difference between the two, which is identified as the net position. This statement combines and consolidates short-term spendable resources (e.g., cash, receivables, inventory, etc.) with capital assets. Increases and decreases in net position may serve as an indicator, over time, as to whether the City's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position, such as the status of the City's infrastructure and property tax base.

The Statement of Activities reports both the gross and net cost of the various programs and activities of the City that are funded by property taxes and other revenue sources. This presentation is intended to summarize the cost of providing the various governmental services. This Statement also shows the change in the City's net position over the fiscal year. All changes in net position are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three types of activities:

1. *Governmental activities.* These activities include functions most commonly associated with government (e.g., police, fire, public works, parks, etc.). Property taxes and intergovernmental revenues usually fund these services.
2. *Business-type activities.* These activities provide services that are supported by customer user fees. The user fees are calculated to provide all, or the majority, of the operating costs involved in providing the services. The City operates two business-type activities that reflect the private-sector type operations: water and sewer services. The City operates a third activity, referred to as the Capital Project Fund, which is classified as a business-type activity because it currently involves commercial and residential plat development, the cost of which is recovered through the sale of lots.
3. *Discretely presented component unit.* Component units are legally separate organizations over which the City (the City Commission) can exercise influence and for which the City is financially accountable. The City has one component unit, the City of Otsego Downtown Development Authority/Main Street (DDA). The financial statements are primarily focused on the City. The component unit information, however, is presented to show its activity and relative financial relationship to the primary government.

### **Fund financial statements**

Fund financial statements are presented in a manner similar to the reporting format of prior years. These statements detail the activity that has occurred in the City's most significant funds. Individual funds, or fund accounting, are necessary to track revenues and expenditures that are directly related to specific activities or required by statute/ordinance to be budgeted and accounted for separately. To be reported separately and considered as a major fund, however, a fund's total assets, liabilities, revenues, or expenditures must be at least 10 percent of the total assets, liabilities, revenues, or expenditures for all funds of that category or type.

The City's funds are classified into three categories, which each use a different accounting approach:

1. *Governmental funds.* These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements mentioned above. The governmental funds statements, however, are presented on a modified accrual basis, which focuses on the short-term (60 day) sources and uses of available resources, as well as the balance of spendable resources at the end of the fiscal year. A review of these statements can show if there has been an increase or decrease in the resources available to continue providing services to our residents. The relationship between governmental activities reported in the Statement of Net Position, Statement of Activities, and the governmental funds statements is reconciled in the financial statements. The City's governmental funds include the General Fund, special revenue funds, capital projects fund, and a debt service fund.
2. *Proprietary funds.* Proprietary funds account for the expenditures involved in providing particular services to customers who are then charged fees calculated to recover the costs of operation. These funds use accrual accounting, which is the same method used by private-sector businesses. The City maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and land development services. Internal service funds are used to accumulate and allocate costs internally across various City functions. The City uses an internal service fund to account for its DPW Equipment Fund that essentially functions as a motor pool. Because the equipment is rented by the hour to provide services, which predominately benefit governmental rather than business-type functions, it is included within governmental activities of the government-wide financial statements.
3. *Fiduciary funds.* These funds record the collection and disbursement of resources, primarily taxes and insurance premiums, for the benefit of parties outside the City. These funds are not reported in the government-wide financial statements because the resources reported here represent a trust relationship and are not, therefore, available to the City to provide services to residents. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## Notes to the basic financial statements

The notes provide additional information that is necessary to understand the data reported in the government-wide and fund financial statements.

### Required supplementary information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

### Supplementary information

Following the required supplementary information are combining financial statements for nonmajor governmental funds. These funds are added together and presented in a single column in the basic financial statements but are not reported individually, as with major funds, on the governmental funds financial statements. This section also includes governmental funds balance sheets, budgetary comparison schedules for each of the City's funds, and financial statements for the component unit.

### Financial analysis of the City as a whole

#### *Statement of Net Position*

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. The Statement of Net Position reveals favorable or positive balances in all three of the government-wide columns (governmental activities, business-type activities, and totals), as well as the component unit column. A negative balance would indicate a deficit situation that would require further disclosure of plans to reverse the balance in the subsequent fiscal year.

A two-year comparison of the Statement of Net Position is shown in Schedule 1. In the City's case, total assets exceeded total liabilities at the end of the fiscal year by \$14,762,268. However, the majority of the City's net position (73 percent) represents an investment in capital assets (e.g., land, streets, storm sewers, water and sewer systems, buildings, and equipment), less outstanding debt used to acquire or construct these assets. Because the City uses these capital assets to provide essential services to citizens, these assets are not available to be liquidated for future spending needs. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay the debt must be provided from other sources because the capital assets themselves cannot be used to satisfy these liabilities.

Overall, total net position increased as a result of revenues being greater than expenses for the year.

A total of \$871,100 of the City's net position is restricted for public safety, public works, and debt service. The City may use the remaining balance of unrestricted net position of \$3,122,884 to meet its ongoing obligations to citizens and creditors. The unrestricted net position for the governmental activities increased by 25 percent for the fiscal year, and the unrestricted net position for the business-type activities decreased by 19 percent.

The unrestricted net position for governmental activities increased by \$326,070, as the increase in governmental revenues outpaced the increase in governmental expenses. The current level of unrestricted net position for governmental activities represents 55 percent of the fiscal year's expenses.

The unrestricted net position of the business-type activities was reduced by \$342,628 during the year, primarily because \$628,910 was used to construct capital assets. The ending unrestricted balance of \$1,476,820 represents 111 percent of the actual business-type expenses for the fiscal year. Although the unrestricted net position is not necessarily cash and cash equivalents, this balance could be depleted by one or more significant capital improvement projects.



**Schedule 1**  
**Statement of Net Position - Two Year Comparison**

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ <b>2,923,837</b>	\$ 2,837,652	\$ <b>1,708,352</b>	\$ 1,844,591	\$ <b>4,632,189</b>	\$ 4,682,243
Capital assets	<u><b>5,638,376</b></u>	<u>4,858,521</u>	<u><b>5,172,908</b></u>	<u>4,776,460</u>	<u><b>10,811,284</b></u>	<u>9,634,981</u>
<b>Total assets</b>	<u><b>8,562,213</b></u>	<u>7,696,173</u>	<u><b>6,881,260</b></u>	<u>6,621,051</u>	<u><b>15,443,473</b></u>	<u>14,317,224</u>
Current and other liabilities	<b>407,134</b>	143,332	<b>231,532</b>	25,143	<b>638,666</b>	168,475
Long-term debt	<u><b>43,000</b></u>	<u>85,000</u>	<u>-</u>	<u>-</u>	<u><b>43,000</b></u>	<u>85,000</u>
<b>Total liabilities</b>	<u><b>450,134</b></u>	<u>228,332</u>	<u><b>231,532</b></u>	<u>25,143</u>	<u><b>681,666</b></u>	<u>253,475</u>
Net position:						
Net investment in capital assets	<b>5,595,376</b>	4,773,521	<b>5,172,908</b>	4,776,460	<b>10,768,284</b>	9,549,981
Restricted	<b>871,100</b>	1,374,326	-	-	<b>871,100</b>	1,374,326
Unrestricted	<u><b>1,646,064</b></u>	<u>1,319,994</u>	<u><b>1,476,820</b></u>	<u>1,819,448</u>	<u><b>3,122,884</b></u>	<u>3,139,442</u>
<b>Total net position</b>	<u><b>\$ 8,112,540</b></u>	<u>\$ 7,467,841</u>	<u><b>\$ 6,649,728</b></u>	<u>\$ 6,595,908</u>	<u><b>\$ 14,762,268</b></u>	<u>\$ 14,063,749</u>

*Statement of Activities*

A similar two-year comparison of the Statement of Activities is shown in Schedule 2. This schedule identifies many of the substantial changes that occurred in revenues and expenses over the fiscal year.

Total net position increased over the past year, as revenues increased by \$1,304,267, while expenses increased by \$428,048.

Governmental activities increased the City's net position by \$644,699 primarily due to receiving a State street construction grant and the first payment from Michigan's Local Community Stabilization Authority (LCSA). Total revenues were \$1,151,345 higher than the prior year, namely due to the LCSA funding of \$796,390 and a State construction grant of \$397,402. The City experienced an increase in governmental activity expenses, in the amount of \$477,808, primarily because community and economic development and public works costs rose by \$305,707 and 168,481, respectively. The increase in community and economic development costs was the result of a General Fund payment to the Downtown Development Authority, the City's component unit, of the remaining funds needed to repay outstanding loans from special revenue and capital project funds of the City. The increase in public works costs is primarily attributed to the Farmer Street construction project.

Business-type activities increased the City's net position by \$53,820. The increase in net position was \$292,682 more than the prior year, due primarily to increased utility revenues and no transfer of surplus land development funds back to the General Fund.

**Schedule 2**  
**Statement of Activities - Two Year Comparison**

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program revenues:						
Charges for services	\$ 262,250	\$ 248,883	\$ 1,382,672	\$ 1,224,074	\$ 1,644,922	\$ 1,472,957
Operating grants	407,708	406,104	-	-	407,708	406,104
Capital grants	397,402	-	-	-	397,402	-
General revenues:						
Property taxes	1,199,052	1,313,448	-	-	1,199,052	1,313,448
Community stabilization	796,390	-	-	-	796,390	-
State shared revenue	377,307	354,745	-	-	377,307	354,745
Public service tax	80,374	87,269	-	-	80,374	87,269
Franchise fees	52,731	53,764	-	-	52,731	53,764
Investment earnings	8,849	5,506	2,733	8,409	11,582	13,915
Gain on sale of assets	39,001	-	-	-	39,001	-
Total revenues	<u>3,621,064</u>	<u>2,469,719</u>	<u>1,385,405</u>	<u>1,232,483</u>	<u>5,006,469</u>	<u>3,702,202</u>
Expenses:						
General government	473,857	467,900	-	-	473,857	467,900
Public safety	1,069,979	1,073,854	-	-	1,069,979	1,073,854
Public works	984,080	815,599	-	-	984,080	815,599
Health and welfare	8,454	8,385	-	-	8,454	8,385
Community and economic development	327,817	22,110	-	-	327,817	22,110
Recreation and culture	111,054	109,041	-	-	111,054	109,041
Interest	1,124	1,668	-	-	1,124	1,668
Land development	-	-	108,573	140,559	108,573	140,559
Sewer	-	-	716,467	819,703	716,467	819,703
Water	-	-	506,545	421,083	506,545	421,083
Total expenses	<u>2,976,365</u>	<u>2,498,557</u>	<u>1,331,585</u>	<u>1,381,345</u>	<u>4,307,950</u>	<u>3,879,902</u>
Excess (deficiency) before transfers	644,699	(28,838)	53,820	(148,862)	698,519	(177,700)
Transfers	-	90,000	-	(90,000)	-	-
Changes in net position	<u>\$ 644,699</u>	<u>\$ 61,162</u>	<u>\$ 53,820</u>	<u>\$ (238,862)</u>	<u>\$ 698,519</u>	<u>\$ (177,700)</u>
Net position, end of year	<u>\$ 8,112,540</u>	<u>\$ 7,467,841</u>	<u>\$ 6,649,728</u>	<u>\$ 6,595,908</u>	<u>\$ 14,762,268</u>	<u>\$ 14,063,749</u>

## **Financial analysis of the City's funds**

The last section of the financial report, entitled Supplementary Information, includes balance sheets and statements of revenues, expenditures, and changes in fund balances in more detail for each of the City's funds. The latter statements also include the final amended budgets, as adopted and approved for each fund. These reports will likely be more familiar to City commissioners and staff, as they are more closely formatted in a manner similar to the monthly financial reports.

### *General Fund*

The General Fund is the primary operating fund of the City. At the end of the fiscal year, total fund balance increased by \$376,479 to \$1,001,125, representing 43 percent of operating costs. Originally, the budget predicted a reduction in fund balance; however, this was offset by the first payment of LCSA funds which were \$695,000 more than the original projection.

The City amended its expenditure budget to increase appropriations by \$434,855. Total expenditures were \$175,745 less than the final amounts appropriated. The most significant expenditure variance occurred in the public safety function where expenditures were \$101,116 less than appropriated, as fire protection costs were \$56,698 less than anticipated. Total public works expenditures were \$23,843 less than budgeted, as a result of focusing public works personnel on maintenance projects in the street and utility funds.

### *Major Street Fund*

The City receives revenues from the State of Michigan to maintain 8.56 miles of major streets, as defined by Public Act 51 of 1951. Also included in this fund are operating costs to maintain the M-89 State Highway, according to contract. This year's revenues were lower than expenditures by \$577,080, as projected. Expenditures included \$667,323 in capital outlays for a street improvement project. Because of the large construction project, fund balance at the end of the fiscal year was \$11,477, which represents only six percent of the year's operating costs. Fund balance is accumulated to help offset future capital improvement projects.

### *Local Street Fund*

The City receives revenues from the State of Michigan to maintain 12.91 miles of local streets, as defined by Public Act 51 of 1951. Subsidies are regularly transferred from the Major Street Fund and/or the Street and Bridge Fund to accumulate sufficient resources to cover anticipated street maintenance and capital improvement costs. Revenues and other sources (transfers in of \$100,000), exceeded expenditures of \$130,386. Fund balance increased by \$68,778 to \$370,689 at year end. Fund balance is accumulated to help offset future capital improvement projects or revenue shortfalls resulting from subsidies being temporarily redirected to other projects.

### *Street and Bridge Fund*

Allegan County voters approved a road maintenance millage to be collected as part of property taxes to help maintain and improve roads within the County. Because the County does not maintain any roads within the City, the County provides a portion of these monies to the City for capital improvement projects or road maintenance, in accordance with Michigan Compiled Laws 224.20b. Transfers to the street funds, totaling \$460,000, exceeded revenues, which caused fund balance to decrease by \$378,044. The restricted fund balance amounts to \$460,628.

### *Special Assessment Capital Project Fund*

The Fund generated revenues of \$20,004 and incurred no expenditures, but transferred \$22,402 to the Major Street Fund, which caused fund balance to decrease by \$2,398. Fund balance available for future capital improvement projects totals \$351,884.

### *Equipment and Replacement Capital Project Fund*

The fund was developed to account for financial resources used to purchase or replace significant pieces of equipment, i.e. fire vehicles. The Fund generated revenues of \$43,262, including property tax revenue of \$43,059, and incurred debt service expenditures of \$43,124, which caused fund balance to increase by \$138. Fund balance, which is restricted for debt service, amounts to \$2,185 at year end.

#### *Sewer Fund*

Charges for services were \$59,682 more than the prior year, primarily due to rate increases of nearly ten percent. Operating expenses decreased by \$103,236 due to staffing changes and reductions in depreciation and contracted sewer main cleaning. Total revenues exceeded total expenses, which resulted in a \$16,080 increase in net position for the year. Total net position was \$4,126,566 at year end, of which \$461,221 was unrestricted. Unrestricted net position represents 64 percent of operating expenses and is accumulated to offset future capital improvement or maintenance projects.

#### *Water Fund*

Charges for services were \$72,524 more than the prior year, primarily due to rate increases of about eight percent. Operating expenses increased by \$85,462 due to replacement of valves and an acceleration of water meter upgrades. Operating income amounted to \$30,720 and, together with interest income, increased net position by \$33,049 for the fiscal year. Total net position was \$2,191,858 at year end, of which \$684,295 was unrestricted. Unrestricted net position represents 135 percent of operating expenses and is accumulated to offset future capital improvement or maintenance projects.

#### *Capital Project Fund*

This fund is also a proprietary fund and has been involved with the development of seven residential plats and three commercial parcels with M-89 frontage. Lot prices in each of the plats have been calculated to offset construction and land acquisition costs. Eight lots were sold during the fiscal year and three repurchased from the prior fiscal year due to default of the buyer to begin construction within one year. This left ten residential lots available for sale at year end. The cost of the lots held as inventory at year end totaled \$211,376. Development costs and other expenses offset operating income, though the net position of the fund increased by \$4,691, resulting in a net position of \$331,304 at the end of the fiscal year.

#### *DPW Equipment Fund*

This fund is a proprietary fund used to allocate the costs of public works equipment and supplies to the City's operating departments and component unit. Equipment is charged to departments using rental rates derived by the State. Supplies are charged at actual costs. The fund's net position increased by \$56,405 in the current year, as interfund charges exceeded operating expenses by \$51,821 and the fund recognized nonoperating revenue of \$4,584. Net position is comprised of an investment in capital assets of \$382,859 and unrestricted net position of \$333,401, totaling \$716,260 at year end. The unrestricted net position is accumulated to offset future capital asset purchases.

### **Capital assets and debt administration**

#### **Capital assets**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$10,811,284 (net of accumulated depreciation). This investment includes a broad range of assets. Overall, there was a \$1,176,303 increase in the City's net investment in capital assets in the current fiscal year, comprised of \$1,862,570 in additions, \$680,511 in current depreciation, and \$5,756 in dispositions.

Capital acquisitions during the year included:

- \$1,035,656 for improvements on Farmer Street
- \$317,199 for sewer system improvements related to the Farmer Street project
- \$311,711 for water system improvements related to the Farmer Street project
- \$144,801 for a truck

Additional information regarding the City's capital assets is located in Note 5 of the notes to the basic financial statements.

#### **Long-term debt**

At the end of the fiscal year, the City had total long-term debt outstanding of \$43,000, reflecting a \$42,000 decrease compared to the prior year, which consists of a principal payment on general obligation unlimited tax bonds, which were issued in a prior year for the purchase of a fire truck. The City received an A2 rating from Moody's Investors Services in August of 2017. State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property, computing to \$9,386,940 based upon 2017 property value assessments. The City has \$43,000 outstanding general obligation debt at the end of the fiscal year.

Other long-term debt obligations, totaling \$57,015, represent accrued compensated absences. Additional information is presented in Note 6 of the notes to the basic financial statements.

## **Economic factors and the 2017-18 budget and rates**

The most notable change in the City's General Fund Budget this year is the transfer of the police department, fire department and building inspection services to a new Public Safety Fund. In August of 2016, the City Commission was granted voter approval of a two mill public safety millage. The new millage is projected to generate \$183,085 annually to support the police and fire departments. Permit fees fund nearly 100 percent of building inspection services. Because the two mill property tax levy property levy will not fully fund the Public Safety Fund appropriations, the General Fund will provide the additional \$850,555 needed. Considering the total police, fire, and their respective capital asset appropriations amount to \$956,575, this amounts to a positive net effect to the General Fund of \$106,020.

The second year of receiving the new State Local Community Stabilization Authority (LCSA) revenue will also help increase General Fund unrestricted fund balance. Pursuant to the personal property tax reforms and reductions that were enacted beginning in 2014, small business and eligible manufacturing personal property is being phased out of the property tax process. The State established the LCSA as a separate legal entity to generate revenue on a different basis, outside of the State budgetary process, and return it to local communities according to the new program. Because of an unforeseen windfall by the State, the City received \$796,390 in this past fiscal year. For the new fiscal year, the State Department of Treasury recommendation is to use the amount of \$416,000, which is the amount the City should have received without the windfall. Treasury was not able to provide a better estimate for the new fiscal year.

Anticipating no improvement to the State's economic condition and considering actual revenues received, the current General Fund budget for constitutional state shared revenues set a target one percent higher than the amount set for 2016 - 2017. Beginning in 2011, the state legislature changed the statutory portion of state shared revenues through the implementation of a new Economic Vitality Incentive Program (EVIP), which the state legislature renamed in 2014 to the Cities, Villages, and Townships Revenue Sharing (CVTRS) program. This program reduced the statutory payments to local units of government by one-third. EVIP further saved the State funds by eliminating payments to units no longer eligible and those units who fail to meet annual requirements of the program. Although this program provides the City an estimated \$59,100, it requires the City to complete additional reporting and cap employee health insurance benefits. Total anticipated General Fund revenues are approximately twenty percent less (\$554,355) than those budgeted in 2016-2017. The overall revenue decrease is possible due to the decrease in LCSA State funding (windfall reduction), the loss of all police, fire and building inspection related revenues, and no transfer in from Capital Project Fund.

The overall decrease in revenues and public safety-related appropriations previously included in the General Fund, results in a projected increase to fund balance of \$156,135. This reverses a previous trend of using accumulated fund balance to cover revenue shortfalls. Actual unassigned fund balance increased by \$373,535 without the anticipated need to transfer in \$70,000 from the Capital Project Fund from the sale of property.

To further encourage residential development, and recover investments in City plats, the Commission renewed the program to sell the remaining residential lots at half of market value, for those that meet contract provisions. The construction of residential plats has been a successful economic development tool for the City as it has recovered associated costs, increased investment in residential homes and two commercial buildings, attracted new families to the community, provided construction jobs, and helped to maintain property values in the City.

An additional change this year is the implementation of capital sinking funds. The Capital Project Fund, which currently holds the remaining residential lots for sale, will be used for land purchases and land improvements for activities within the General and Public Safety Funds. Transfers will be made based upon depreciation schedules to be held within the fund for building and land improvement repairs, as well as land purchases. The Equipment Replacement Fund, previously used to track the funds received and spent for the fire truck purchased in a previous fiscal year, will receive transfers from the General and Public Safety Funds to accumulate monies necessary to purchase and/or replace equipment. The implementation of this practice will hopefully allow funds to grow and be available for future use and minimize the need to secure additional funding. The ability to use some of the surplus revenues to implement this proactive program officially breaks the previous "maintenance mode" the General Fund has been placed in for the last several years due to the declining economy.

The City's Water and Sewer Funds continue to be financially sound. Although the utilities have excess capacity due to reductions of industrial use and the respective departments have attempted to maintain aging equipment within reduced operating budgets, the City has begun a proactive program to update infrastructure. The City was approved to receive a State loan of up to \$1.5 million for wastewater treatment plant repairs in August of 2017. The anticipated loan amount will be closer to \$1.4 million with the City performing some of the loan-ineligible repairs out of available net position. The 20-year loan will be repaid through user fees and rates will continue to be increased over the next two years to cover loan payments. The water system will likely be looking to drill a new well, next to an existing well, within the next two years due to diminishing pumping capacity. The new well will likely cost \$200,000. Historically, these funds have recovered depreciation, which has left both in reasonably strong positions to maintain infrastructure and occasionally fund improvements to their respective systems.

### **Contacting the City's financial management**

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Matthew Storbeck, Finance Director  
City of Otsego  
117 East Orleans Street  
Otsego, MI 49078-1199

Phone: (269) 692-2741  
E-Mail: [mstorbeck@cityofotsego.org](mailto:mstorbeck@cityofotsego.org)

## **BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Otsego, Michigan (the City), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

*Reporting entity:*

The City is governed by an elected five-member Commission. As required by generally accepted accounting principles, these financial statements present the City (the primary government located in Allegan County), and the component unit described below, for which the City is financially accountable. The component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

*Otsego Downtown Development Authority:*

The Authority was established pursuant to Public Act 197 of 1975, as amended, to correct and prevent deterioration and promote economic growth within the downtown district. The Authority is fiscally dependent on the City because the City Commission appoints the Authority's governing body and approves its budget. The City is also obligated to provide some of its tax revenues to the Authority, through tax increment financing, which represents a financial burden on the City. Fiscal dependence and the financial burden relationship make the City financially accountable for the Authority and require the City to report it in its financial statements. Separate financial statements for the component unit have not been issued as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

*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 City. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from the legally separate component unit 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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

*Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds 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 revenues as soon as all eligibility requirements imposed by the provider have been met.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement focus, basis of accounting, and financial statement presentation (continued):*

Governmental funds 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 if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the City generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenues of the current period. All other revenue items are considered to be measurable only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Major Street Fund, a special revenue fund, accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The Local Street Fund, a special revenue fund, accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's local streets.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewage system and treatment plant.

The Water Fund accounts for the activities of the City's water mains and pumping facilities.

The Capital Project Fund accounts for the development and sale of residential and commercial real estate for purposes of promoting economic development within the City.

Additionally, the City reports the following fund type:

The Internal Service Fund accounts for public works operations and capital asset rentals by various City departments.

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

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 proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary 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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement focus, basis of accounting, and financial statement presentation (continued):*

*Assets, liabilities, deferred inflows of resources, and net position or equity:*

*Cash and investments* - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value. Pooled investment income is proportionately allocated to all funds.

*Receivables and payables* - In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” No allowance for uncollectible accounts has been recorded, as the City considers all receivables to be fully collectible.

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

*Inventories* - The costs of inventories are recorded as assets when purchased and charged to expenses when used. Inventories, reported in the proprietary funds, are valued at the lower of cost or market. Cost is determined under the first-in, first-out method.

*Capital assets* - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of greater than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value as of the date received. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The City has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

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

Buildings and improvements	10 - 50 years
Furniture, fixtures, and equipment	3 - 20 years
Vehicles	3 - 20 years
Sewer and water systems	50 years

*Compensated absences (vacation and sick leave)* - It is the City’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

*Deferred inflows of resources* - The governmental funds balance sheet includes a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The related revenues will not be recognized until a future event occurs. The City has one item included in this category - special assessments. Special assessment revenues, which are not recognized until available (collected not later than 60 days after the end of the City's fiscal year) are deferred and recognized as an inflow of resources in the period that the assessments become available.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Assets, liabilities, deferred inflows of resources, and net position or equity (continued):*

*Net position* - Net position represents the difference between assets, and liabilities and deferred inflows of resources. The City reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the City's debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the City.

*Net position flow assumption* - Sometimes, the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary funds financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

*Fund equity* - In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are not in spendable form. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and 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 City Commission. A formal resolution of the City Commission is required to establish, modify, or rescind a fund balance commitment. The City Commission retains the authority to assign fund balance. Unassigned fund balance is the residual classification for the amounts that do not fall into any of the above categories. When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use restricted fund balance first, followed by committed fund balance, then assigned fund balance and, finally, unassigned fund balance.

*Property tax revenue recognition* - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 15, at which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

*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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. There were no reportable budget violations during the fiscal year ended June 30, 2017.

**NOTE 3 - CASH AND INVESTMENTS**

Cash, as presented in the accompanying financial statements, consists of the following:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total primary government</u>	<u>Discretely presented component unit</u>	<u>Totals</u>
Deposits	\$ 1,941,531	\$ 821,000	\$ 2,762,531	\$ 92,612	\$ 2,855,143
Cash on hand	<u>878</u>	<u>-</u>	<u>878</u>	<u>200</u>	<u>1,078</u>
Totals	<u>\$ 1,942,409</u>	<u>\$ 821,000</u>	<u>\$ 2,763,409</u>	<u>\$ 92,812</u>	<u>\$ 2,856,221</u>

*Deposits* - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the City’s investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits. The City’s investment policy addresses custodial credit risk for deposits, as the City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories. At June 30, 2017, \$2,328,779 of the City’s bank balances (including the component unit) of \$2,883,276 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City maintains individual and pooled cash accounts for all of its funds and its component unit. Due to the use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component unit.

*Investments* - State statutes and the City’s investment policy authorize the City to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers’ acceptances; e) mutual funds composed of otherwise legal investments; and f) investment pools organized under the local government investment pool act.

The City’s investments consist of holdings in the Cooperative Liquid Assets Securities System - Michigan (CLASS), which is a local government investment pool established under Michigan state statutes for participating Michigan municipalities. This pool, which is a nonrisk categorized qualifying investment, is carried at fair value. The fair value of the City’s position in the pool is the same as the value of its pool shares. The fund operates like a money market fund with each share valued at \$1, and is rated AAAM by Standard and Poor’s (credit risk); it is not subject to regulatory oversight and is not registered with the SEC. The pool issues a separate report, which is available at 15309 Meadowwood Drive, Grand Haven, Michigan, 49417.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Fair value measurement - The City 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 asset. 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 City has the following recurring fair value measurements as of June 30, 2017:

- Cooperative Liquid Assets Securities System - Michigan, with a balance of \$970,183 at June 30, 2017, which is valued using observable fair values of similar assets (Level 2).

**NOTE 4 - RECEIVABLES**

Receivables as of June 30, 2017, for the City's individual major funds and nonmajor funds, in the aggregate, were as follows:

<u>Funds</u>	<u>Accounts</u>	<u>Interest</u>	<u>Property taxes</u>	<u>Special assess-ments</u>	<u>Inter-govern-mental</u>	<u>Totals</u>
Governmental:						
General	\$ 14,419	\$ 28	\$ 190	\$ -	\$ 145,474	\$ 160,111
Major Street	4,680	-	-	-	55,242	59,922
Local Street	2,166	-	-	-	17,115	19,281
Nonmajor funds	<u>-</u>	<u>4</u>	<u>1</u>	<u>35,760</u>	<u>-</u>	<u>35,765</u>
Total governmental funds	<u>\$ 21,265</u>	<u>\$ 32</u>	<u>\$ 191</u>	<u>\$ 35,760</u>	<u>\$ 217,831</u>	<u>\$ 275,079</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,862</u>	<u>\$ -</u>	<u>\$ 30,862</u>
Proprietary:						
Enterprise funds:						
Sewer	\$ 215,022	\$ -	\$ -	\$ -	\$ -	\$ 215,022
Water	<u>124,314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,314</u>
	339,336	-	-	-	-	339,336
Internal service fund	<u>545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>545</u>
Total proprietary funds	<u>\$ 339,881</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,881</u>

## NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated	\$ 833,212	\$ -	\$ -	\$ 833,212
Capital assets being depreciated:				
Buildings	2,185,331	-	-	2,185,331
Improvements	3,225,212	1,056,639	-	4,281,851
Furniture, fixtures, and equipment	780,831	8,260	-	789,091
Vehicles	1,394,637	168,761	(28,779)	1,534,619
Subtotal	<u>7,586,011</u>	<u>1,233,660</u>	<u>(28,779)</u>	<u>8,790,892</u>
Less accumulated depreciation for:				
Buildings	(876,237)	(50,142)	-	(926,379)
Improvements	(1,175,530)	(290,110)	-	(1,465,640)
Furniture, fixtures, and equipment	(584,737)	(30,296)	-	(615,033)
Vehicles	(924,198)	(77,501)	23,023	(978,676)
Subtotal	<u>(3,560,702)</u>	<u>(448,049)</u>	<u>23,023</u>	<u>(3,985,728)</u>
Total capital assets being depreciated, net	<u>4,025,309</u>	<u>785,611</u>	<u>(5,756)</u>	<u>4,805,164</u>
Governmental activities capital assets, net	<u>\$ 4,858,521</u>	<u>\$ 785,611</u>	<u>\$ (5,756)</u>	<u>\$ 5,638,376</u>
Business-type activities:				
Capital assets not being depreciated	\$ 23,052	\$ -	\$ -	\$ 23,052
Capital assets being depreciated:				
Sewer system	5,997,400	317,199	-	6,314,599
Water system	2,697,947	311,711	-	3,009,658
Subtotal	<u>8,695,347</u>	<u>628,910</u>	<u>-</u>	<u>9,324,257</u>
Less accumulated depreciation for:				
Sewer system	(2,513,312)	(158,994)	-	(2,672,306)
Water system	(1,428,627)	(73,468)	-	(1,502,095)
Subtotal	<u>(3,941,939)</u>	<u>(232,462)</u>	<u>-</u>	<u>(4,174,401)</u>
Total capital assets being depreciated, net	<u>4,753,408</u>	<u>396,448</u>	<u>-</u>	<u>5,149,856</u>
Business-type activities capital assets, net	<u>\$ 4,776,460</u>	<u>\$ 396,448</u>	<u>\$ -</u>	<u>\$ 5,172,908</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Component unit:				
Capital assets not being depreciated - land	\$ 98,069	\$ -	\$ -	\$ 98,069
Capital assets being depreciated:				
Buildings and improvements	2,878,352	-	-	2,878,352
Equipment	37,130	-	-	37,130
Subtotal	<u>2,915,482</u>	<u>-</u>	<u>-</u>	<u>2,915,482</u>
Less accumulated depreciation for:				
Buildings and improvements	(667,685)	(73,341)	-	(741,026)
Equipment	(15,778)	(1,857)	-	(17,635)
Subtotal	<u>(683,463)</u>	<u>(75,198)</u>	<u>-</u>	<u>(758,661)</u>
Total capital assets being depreciated, net	<u>2,232,019</u>	<u>(75,198)</u>	<u>-</u>	<u>2,156,821</u>
Component unit capital assets, net	<u>\$ 2,330,088</u>	<u>\$ (75,198)</u>	<u>\$ -</u>	<u>\$ 2,254,890</u>

Depreciation expense was charged to programs of the City's governmental activities as follows:

Governmental activities:	
General government	\$ 22,244
Public safety	62,675
Public works	299,038
Recreation and culture	3,951
Depreciation on capital assets held by internal service fund	<u>60,141</u>
Total governmental activities	<u>\$ 448,049</u>

**NOTE 6 - LONG-TERM OBLIGATIONS**

Long-term obligations at June 30, 2017, consist of the following individual issue:

General government:	
\$200,000 2013 General Obligation Bonds - payable in annual installments ranging from \$34,000 to \$43,000, plus interest at 1.32%, secured by the full faith and credit of the City; final payment due May 2018	<u>\$ 43,000</u>

**NOTE 6 - LONG-TERM OBLIGATIONS (Continued)**

Long-term obligations activity for the year ended June 30, 2017, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<i>Primary government:</i>					
<i>Governmental activities:</i>					
General obligation bonds	\$ 85,000	\$ -	\$ (42,000)	\$ 43,000	\$ 43,000
Compensated absences	<u>44,901</u>	<u>66,544</u>	<u>(60,999)</u>	<u>50,446</u>	<u>-</u>
Total governmental activities	<u>\$ 129,901</u>	<u>\$ 66,544</u>	<u>\$ (102,999)</u>	<u>\$ 93,446</u>	<u>\$ 43,000</u>
<i>Business-type activities:</i>					
Compensated absences	<u>\$ 6,149</u>	<u>\$ 15,881</u>	<u>\$ (15,461)</u>	<u>\$ 6,569</u>	<u>-</u>
<i>Component unit:</i>					
Advance from primary government	\$ 302,702	\$ -	\$ (302,702)	\$ -	\$ -
Compensated absences	<u>229</u>	<u>650</u>	<u>(644)</u>	<u>235</u>	<u>-</u>
Total component unit	<u>\$ 302,931</u>	<u>\$ 650</u>	<u>\$ (303,346)</u>	<u>\$ 235</u>	<u>\$ -</u>

Debt service requirements at June 30, 2017, excluding compensated absences, were as follows:

<u>Year ended June 30:</u>	<i>Primary government:</i> <u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	<u>\$ 43,000</u>	<u>\$ 568</u>

All debt of the primary government is secured by the full faith and credit of the City.



**NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
DPW Equipment	\$ <u>1,312</u>	General	\$ 1,085
		Sewer	159
		Water	<u>68</u>
			<u>1,312</u>

The interfund balances, due to the DPW Equipment Fund, represent current amounts due for equipment charges.

Interfund transfers occurred during the year ended June 30, 2017, as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
Major Street	\$ 382,402	Street and Bridge	\$ <u>482,402</u>
Local Street	<u>100,000</u>		
	<u>\$ 482,402</u>		

A nonmajor governmental fund, the Street and Bridge Fund, transferred available restricted funds to the Major and Local street funds to finance street preservation costs.

**NOTE 8 - PROPERTY TAX REVENUES**

The taxable valuation of the City, for the 2016 tax year, approximated \$79,630,000, on which ad valorem taxes levied consisted of 12.0854 mills for operating purposes, 1.5795 mills for solid waste/recycling, and 0.4709 mills for debt service, raising approximately \$1,115,000 for operating purposes, \$146,000 for solid waste/recycling, and \$43,000 for debt service. These amounts are recognized in the fund financial statements as property tax revenue.

**NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN**

The City contributes to the City of Otsego Group Pension Plan (the Plan), a defined contribution pension plan, for all of its full-time employees. The Plan is administered by a third-party administrator.

Benefit terms, including contribution requirements, for the Plan are established and may be amended by the City Commission. For each eligible employee in the Plan, the City is required to contribute 10% of covered payroll to the individual employee’s account. Employees are permitted to make contributions to the pension plan, up to applicable Internal Revenue Code limits. For the year ended June 30, 2017, employee contributions totaled \$21,824, and the City recognized pension expense of \$116,440.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in City contributions and earnings on City contributions after completion of two years of credited service with the City. Nonvested City contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan’s administrative expenses. For the year ended June 30, 2017, there were no forfeitures.

At June 30, 2017, the City reported a \$1,620 accrued liability as part of the contributions to the Plan.

**NOTE 10 - CONTINGENT LIABILITY**

The City is contingently liable to its employees for \$263,124 in accumulated non-vested sick pay benefits.

**NOTE 11 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to general liability, property and casualty, workers’ compensation, and employee health and medical claims. The risks of loss arising from general liability, building contents, workers’ compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

**NOTE 12 - RESTRICTED NET POSITION**

The government-wide statement of net position reports \$871,100 of restricted net position, of which \$868,279 and \$636, is restricted by enabling legislation for public works and public safety expenditures, respectively.

**NOTE 13 - CONSTRUCTION CODE ACT**

A summary of construction code enforcement transactions for the year ended June 30, 2017, is as follows. At June 30, 2017, there was a cumulative deficiency of revenues of \$13,843 arising from construction code enforcement activities.

Revenues	\$ 37,141
Expenses	<u>37,265</u>
Deficiency of revenues over expenses	<u>\$ (124)</u>

**NOTE 14 - TAX ABATEMENTS**

The City enters into property tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within the City. Each agreement was negotiated under a state law, which allows local units to abate property taxes for a variety of economic development purposes. The abatements may be granted to local businesses located within the City or promising to relocate within the City. Depending on the statute referenced for a particular abatement, the City may grant abatements of up to 50% of annual property taxes through a direct reduction of the entity's property tax bill or not tax the entity on improvements to a property for a period of time, not to exceed twelve years. Depending on the terms of the agreement and state law, abated taxes may be subject to recapture upon default of the entity.

The City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governmental entities.

For the fiscal year ended June 30, 2017, the City abated property taxes totaling \$163,380 under this program, summarized as follows:

<u>Purpose</u>	<u>State statute</u>	<u>Percentage of taxes abated</u>	<u>City taxes abated</u>
Paper Mill - investment in equipment	PA 198 of 1974	50%	\$ 162,835
Industrial building rehabilitation	PA 198 of 1974	19%	<u>545</u>
Total taxes abated			<u>\$ 163,380</u>

**NOTE 15 - ECONOMIC DEPENDENCY**

For the fiscal year ended June 30, 2017, the City received approximately 17% of its property tax revenue and 15% of its utility revenues from one industrial property owner.

**NOTE 16 - SUBSEQUENT EVENT**

The City authorized a contract in September, 2017, in the amount of \$1,284,159, for wastewater treatment plant improvements. The improvements will be funded through the issuance of capital improvement bonds, which are expected to approximate \$1,400,000.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SUPPLEMENTARY INFORMATION**