

City of Otsego
Allegan County, Michigan

FINANCIAL STATEMENTS

Year ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Otsego, Michigan

Report on the Financial Statements

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, 2018, 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 and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, 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, 2018, 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.

Other 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is 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 October 25, 2018, on our consideration of the City of Otsego, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 City of Otsego's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Siegfried Crandall P.C.". The signature is written in a cursive style with a large initial 'S'.

October 25, 2018

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, 2018. Please read it in conjunction with the City's financial statements.

Financial Highlights

- The City's total net position increased by \$480,391 or 3 percent, as a result of this year's operations. The net position of the governmental activities increased by \$26,266, and the net position of the business-type activities increased by \$454,125.
- Of the \$15,242,659 total net position reported, \$3,307,132 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 \$746,103, which represents 38 percent of the actual total General Fund expenditures and transfers out 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 \$15,242,659. However, the majority of the City's net position, in the amount of \$11,336,258, (74 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 \$599,269 of the City's net position is restricted for public works. The City may use the remaining balance of unrestricted net position of \$3,307,132 to meet its ongoing obligations to citizens and creditors. The unrestricted net position for the governmental activities decreased by 2 percent for the fiscal year, and the unrestricted net position for the business-type activities increased by 15 percent.

The unrestricted net position for governmental activities decreased by \$30,536, primarily due to a reduction in state funding. The current level of unrestricted net position for governmental activities represents 59 percent of the fiscal year's expenses.

The unrestricted net position of the business-type activities increased by \$214,784 during the year, primarily due to increases in utility charges. The ending unrestricted balance of \$1,691,604 represents 123 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 2,389,742	\$ 2,923,837	\$ 2,459,820	\$ 1,708,352	\$ 4,849,562	\$ 4,632,189
Capital assets	<u>5,924,009</u>	<u>5,638,376</u>	<u>6,357,690</u>	<u>5,172,908</u>	<u>12,281,699</u>	<u>10,811,284</u>
Total assets	<u>8,313,751</u>	<u>8,562,213</u>	<u>8,817,510</u>	<u>6,881,260</u>	<u>17,131,261</u>	<u>15,443,473</u>
Current and other liabilities	174,945	406,673	768,216	231,532	943,161	638,205
Long-term debt	<u>-</u>	<u>43,000</u>	<u>945,441</u>	<u>-</u>	<u>945,441</u>	<u>43,000</u>
Total liabilities	<u>174,945</u>	<u>449,673</u>	<u>1,713,657</u>	<u>231,532</u>	<u>1,888,602</u>	<u>681,205</u>
Net position:						
Net investment in capital assets	5,924,009	5,595,376	5,412,249	5,172,908	11,336,258	10,768,284
Restricted	599,269	871,100	-	-	599,269	871,100
Unrestricted	<u>1,615,528</u>	<u>1,646,064</u>	<u>1,691,604</u>	<u>1,476,820</u>	<u>3,307,132</u>	<u>3,122,884</u>
Total net position	<u>\$ 8,138,806</u>	<u>\$ 8,112,540</u>	<u>\$ 7,103,853</u>	<u>\$ 6,649,728</u>	<u>\$ 15,242,659</u>	<u>\$ 14,762,268</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.

The increase in net position was lower than the prior year, as revenues decreased by \$429,934, while expenses decreased by \$211,806.

Although governmental activities increased the City's net position by \$26,266, the change in net position was \$618,433 less than the previous year due to the loss of LCSA funding. The small increase was due to efforts by the administration to keep spending within revenues upon learning of the loss of LCSA funding.

Business-type activities increased the City's net position by \$454,125. The increase in net position was \$400,305 more than the prior year, primarily due to increased utility revenues related to an increase in rates.

Schedule 2
Statement of Activities - Two Year Comparison

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Program revenues:						
Charges for services	\$ 255,438	\$ 262,250	\$ 1,649,799	\$ 1,382,672	\$ 1,905,237	\$ 1,644,922
Operating grants	504,657	407,708	-	-	504,657	407,708
Capital grants	38,851	397,402	175,000	-	213,851	397,402
General revenues:						
Property taxes	1,419,442	1,199,052	-	-	1,419,442	1,199,052
Community stabilization	-	796,390	-	-	-	796,390
State shared revenue	391,171	377,307	-	-	391,171	377,307
Public service tax	68,909	80,374	-	-	68,909	80,374
Franchise fees	51,659	52,731	-	-	51,659	52,731
Investment earnings	15,867	8,849	5,742	2,733	21,609	11,582
Gain on sale of assets	-	39,001	-	-	-	39,001
Total revenues	<u>2,745,994</u>	<u>3,621,064</u>	<u>1,830,541</u>	<u>1,385,405</u>	<u>4,576,535</u>	<u>5,006,469</u>
Expenses:						
General government	468,305	473,857	-	-	468,305	473,857
Public safety	1,153,027	1,069,979	-	-	1,153,027	1,069,979
Public works	955,898	984,080	-	-	955,898	984,080
Health and welfare	7,898	8,454	-	-	7,898	8,454
Community and economic development	29,387	327,817	-	-	29,387	327,817
Recreation and culture	104,645	111,054	-	-	104,645	111,054
Interest	568	1,124	-	-	568	1,124
Land development	-	-	166,324	108,573	166,324	108,573
Sewer	-	-	742,634	716,467	742,634	716,467
Water	-	-	467,458	506,545	467,458	506,545
Total expenses	<u>2,719,728</u>	<u>2,976,365</u>	<u>1,376,416</u>	<u>1,331,585</u>	<u>4,096,144</u>	<u>4,307,950</u>
Changes in net position	\$ <u>26,266</u>	\$ <u>644,699</u>	\$ <u>454,125</u>	\$ <u>53,820</u>	\$ <u>480,391</u>	\$ <u>698,519</u>
Net position, end of year	\$ <u>8,138,806</u>	\$ <u>8,112,540</u>	\$ <u>7,103,853</u>	\$ <u>6,649,728</u>	\$ <u>15,242,659</u>	\$ <u>14,762,268</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 decreased by \$180,787 to \$820,338. The ending fund balance represents 42 percent of current year expenditures and transfers out. Originally, the budget predicted an addition to fund balance; however, this was offset by the loss of \$416,000 in LCSA funding for the year due to calculation errors in the prior fiscal year.

The City amended its expenditure budget to increase appropriations by \$69,850. Total expenditures were \$161,648 less than the final amounts appropriated. The most significant expenditure variance occurred in the general government function where expenditures were \$67,221 less than appropriated. The majority of these savings occurred by three department supervisors absorbing city manager functions for six months. Total public works expenditures were \$49,127 less than budgeted, as a result of focusing public works personnel on maintenance projects in the street and utility funds. Recreation and culture expenditures were \$42,280 less than budgeted, half of which was previously planned to develop a new master plan for Memorial Park (\$20,000).

Beginning this fiscal year, a voter approved millage was levied for public safety which required the police, fire and building inspection services to be moved from the General Fund to a new Public Safety Fund. The removal of the departments, however, only partially removed the General Fund's support of those functions. The General Fund subsidized the Public Safety Fund through a transfer out of \$901,191 which represents 46 percent of total General Fund appropriations.

Major Street Fund

The City receives revenues from the State of Michigan to maintain 8.71 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 \$280,515, as projected. Expenditures included \$492,605 in capital outlays for a street improvement project. Because a large construction project was completed this fiscal year, fund balance at the end of the fiscal year grew \$182,238 to \$193,715, which represents 134 percent of the current year's public works expenditures. 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 \$20,833), were less than expenditures of \$236,963. Fund balance decreased by \$92,660 to \$278,029 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.

Public Safety Fund

Normal operating costs were \$1,072,155 while transfers out to capital project sinking funds were \$90,740, bringing the total of expenditures plus other uses to \$1,162,895. Tax revenue generated \$183,013, or 16 percent of total uses of funds. The \$901,191 transfer in, from the General Fund, provided 77 percent of the total uses of funds. The fund ended the year with a fund balance of \$75,966 which represents 7 percent of operating costs.

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 \$455,518, exceeded revenues, which caused fund balance to decrease by \$387,043. The restricted fund balance amounts to \$73,585.

Special Assessment Capital Project Fund

The Fund generated revenues of \$15,295, incurred \$8,434 in expenditures, and transferred \$28,068 to the Major Street Fund, which caused fund balance to decrease by \$21,207. Fund balance available for future capital improvement projects totals \$330,677.

Equipment Replacement Fund

This is a new capital project fund created to accumulate resources over time in order to purchase vehicles and equipment exceeding the \$5,000 capitalization threshold. This fund had a total of \$89,462 transferred in from the General and Public Safety funds, based on estimated annual depreciation of capital assets purchased by these funds. The transfer in, plus interest revenue of \$158, less a vehicle purchase of \$79,006, resulted in an ending fund balance of \$10,614.

Equipment and Replacement Debt Service Fund

The fund accounted for voter approved tax revenue to finance the purchase of a fire truck. This year, the Fund generated revenues of \$41,505, including property tax revenue of \$41,323, and incurred debt service expenditures of \$43,568, which caused fund balance to decrease by \$2,063. Because outstanding debt is now repaid, the remaining \$122 was transferred to the Public Safety Fund and the fund was closed at year end.

Sewer Fund

Charges for services were \$135,041 more than the prior year, primarily due to rate increases of nearly 18 percent. Operating expenses increased by \$26,167 due to increased maintenance and added depreciation for a main replacement project completed this year. Operating income amounted to \$142,810 and, together with interest income and forgiveness of debt (\$175,000), increased net position by \$318,061 for the fiscal year. Total net position was \$4,444,627 at year end, of which \$487,122 was unrestricted. Unrestricted net position represents 66 percent of operating expenses and is accumulated to offset future capital improvement or maintenance projects. A major capital improvement project was underway at year end and has incurred a long-term debt obligation of \$945,441 out of an anticipated \$1.3 million. User fees were increased significantly in anticipation of providing debt repayment funding while still supporting operating costs.

Water Fund

Charges for services were \$63,811 more than the prior year, primarily due to rate increases of about 7 percent. Operating expenses decreased by \$39,087, primarily due to postponing scheduled maintenance on a well which will be replaced due to a drop in production capacity. Operating income amounted to \$133,437 and, together with interest income, increased net position by \$137,665 for the fiscal year. Total net position was \$2,329,523 at year end, of which \$874,779 was unrestricted. Unrestricted net position represents 187 percent of operating expenses and is accumulated to offset future capital improvement or maintenance projects.

Capital Projects Fund

This fund has served as a proprietary fund 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. This left two residential lots available for sale at year end. The cost of the lots held as inventory at year end totaled \$46,545. Development costs and other expenses offset operating income, resulting in a decrease in net position of the land development function by \$1,601 to \$329,703. Because this fund balance is comprised predominantly of General Fund transfers in and gains resulting from the sale of developed lots, the city commission has chosen to use it for future improvements to existing City facilities and begin the transition of the proprietary fund to a governmental capital project fund. Transfers in from the General Fund and Public Safety Fund for this new function totaled \$27,400, based on projected depreciation of applicable capital assets. Total revenues were \$10,783, and expenditures related to one capital improvement project totaled \$21,565. This resulted in a year end fund balance of \$16,618 for the new governmental capital project fund.

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 \$59,296 in the current year, as interfund charges exceeded operating expenses by \$56,397 and the fund recognized nonoperating revenue of \$2,899. Net position is comprised of an investment in capital assets of \$361,785, and unrestricted net position of \$413,771, totaling \$775,556 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, 2018, amounts to \$12,281,699 (net of accumulated depreciation). This investment includes a broad range of assets. Overall, there was a \$1,470,415 increase in the City's net investment in capital assets in the current fiscal year, comprised of \$2,165,411 in additions, \$690,831 in current depreciation and \$4,165 in dispositions.

Capital acquisitions during the year included:

- \$1,159,156 of wastewater treatment plant improvements
- \$476,196 of additional improvements to Farmer Street
- \$132,310 in street resurfacing projects
- \$38,844 for a new police patrol vehicle
- \$35,549 for a new DPW skid steer
- \$26,701 for the City's 50 percent share of a new fire medical rescue unit
- \$17,268 of additional sewer system improvements related to the Farmer Street project
- \$20,527 of additional water system improvements related to the Farmer Street project
- \$17,500 for DPW trailer mounted air compressor

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 \$945,441, reflecting an increase of \$1,120,441, from issuance of a State Revolving Fund loan, and a \$175,000 decrease associated with debt forgiveness on that loan, which was issued to make sewer system improvements. The City received an A2 rating from Moody's Investors Services in August of 2018. 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, which is equal to \$10,227,290, based upon 2018 property value assessments.

Other long-term debt obligations, totaling \$57,981, represent accrued compensated absences. Additional information is presented in Note 6 of the notes to the basic financial statements.

Economic factors and the 2018-19 budget and rates

The most notable change in the City's General Fund Budget this year was the loss of Local Community Stabilization Authority (LCSA) funding. Pursuant to the personal property tax reforms and reductions that were enacted 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 reporting errors to the State, the City received a windfall of \$796,390 in fiscal year 2016-2017. For the past fiscal year (FYE18), the State Department of Treasury recommended the City budget \$416,000, which is the amount the City should have received without the windfall. Because of the overpayment in 2016-2017, the City received no State LCSA revenue this fiscal year. This resulted in a shortfall of \$416,000 in current year General Fund Revenues. The current year budget (FYE19) includes \$125,000 in LCSA revenue.

Anticipating moderate improvement to the State's economic condition and considering actual revenues received in comparison to State projections, the current General Fund budget for constitutional state shared revenues set a target seven percent higher than the amount set for 2017 - 2018. 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 12 percent less (\$251,015) than those budgeted in 2017-2018. The overall revenue decrease is primarily due to lowered LCSA funding expectations.

The 12 percent decrease in anticipated revenues, and a moderate four percent increase in appropriations, results in a projected decrease to fund balance of \$168,970. This represents a return to the previous trend of using accumulated fund balance to cover revenue shortfalls. While this trend is not sustainable, the City remains hopeful that the recent statutory change to LCSA funding will lead to better projections and restoration of revenues closer to the original 2016-2017 State prediction of \$416,000.

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. One of the last two residential lots has been sold and the remaining lot is in the process of being sold.

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 \$1.3 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 again over the next fiscal year to cover loan payments. The water system plans to drill a new well, next to an existing well, within the current fiscal year due to diminishing pumping capacity. The new well is projected to cost \$120,000. 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.

The City's water system is currently being tested, as are many systems within the State of Michigan, for PFAS contamination or the presence of other contaminants in a precautionary measure. While the administration has no basis to believe contamination will be found, corrective measures requiring additional capital improvements to mitigate any contaminants may become necessary and will likely affect unrestricted net position.

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2018

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	Downtown Development Authority
ASSETS				
Current assets:				
Cash	\$ 1,371,287	\$ 1,106,488	\$ 2,477,775	\$ 69,689
Investments	642,233	408,796	1,051,029	42,914
Receivables	267,205	856,589	1,123,794	-
Inventory	13,416	80,234	93,650	-
Prepaid items	50,709	8,021	58,730	3,415
Internal balances	308	(308)	-	-
Total current assets	<u>2,345,158</u>	<u>2,459,820</u>	<u>4,804,978</u>	<u>116,018</u>
Noncurrent assets:				
Receivables	44,584	-	44,584	-
Capital assets not being depreciated	833,212	1,351,755	2,184,967	98,069
Capital assets, net of accumulated depreciation	<u>5,090,797</u>	<u>5,005,935</u>	<u>10,096,732</u>	<u>2,162,418</u>
Total noncurrent assets	<u>5,968,593</u>	<u>6,357,690</u>	<u>12,326,283</u>	<u>2,260,487</u>
Total assets	<u>8,313,751</u>	<u>8,817,510</u>	<u>17,131,261</u>	<u>2,376,505</u>
LIABILITIES				
Current liabilities:				
Accounts payable	97,813	753,558	851,371	17,460
Accrued payroll liabilities	26,803	7,882	34,685	2,396
Compensated absences	32,643	-	32,643	-
Bonds payable	-	50,000	50,000	-
Total current liabilities	<u>157,259</u>	<u>811,440</u>	<u>968,699</u>	<u>19,856</u>
Noncurrent liabilities:				
Compensated absences	17,686	6,776	24,462	876
Bonds payable	-	895,441	895,441	-
Total non-current liabilities	<u>17,686</u>	<u>902,217</u>	<u>919,903</u>	<u>876</u>
Total liabilities	<u>174,945</u>	<u>1,713,657</u>	<u>1,888,602</u>	<u>20,732</u>
NET POSITION				
Net investment in capital assets	5,924,009	5,412,249	11,336,258	2,260,487
Restricted for public works	599,269	-	599,269	-
Unrestricted	<u>1,615,528</u>	<u>1,691,604</u>	<u>3,307,132</u>	<u>95,286</u>
Total net position	<u>\$ 8,138,806</u>	<u>\$ 7,103,853</u>	<u>\$ 15,242,659</u>	<u>\$ 2,355,773</u>

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

Functions/Programs	Net (expenses) revenues and changes in net position							
	Expenses	Program revenues			Primary government			Component unit
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	Downtown Development Authority
Primary government								
Governmental activities:								
General government	\$ 468,305	\$ 80,803	\$ -	\$ -	\$ (387,502)	\$ (387,502)		
Public safety	1,153,027	149,486	4,875	10,783	(987,883)	(987,883)		
Public works	955,898	24,289	499,782	28,068	(403,759)	(403,759)		
Health and welfare	7,898	-	-	-	(7,898)	(7,898)		
Community and economic development	29,387	-	-	-	(29,387)	(29,387)		
Recreation and culture	104,645	860	-	-	(103,785)	(103,785)		
Interest on long-term obligations	568	-	-	-	(568)	(568)		
Total governmental activities	<u>2,719,728</u>	<u>255,438</u>	<u>504,657</u>	<u>38,851</u>	<u>(1,920,782)</u>	<u>(1,920,782)</u>		
Business-type activities:								
Land development	166,324	163,460	-	-	\$ (2,864)	(2,864)		
Sewer	742,634	885,444	-	175,000	317,810	317,810		
Water	467,458	600,895	-	-	133,437	133,437		
Total business-type activities	<u>1,376,416</u>	<u>1,649,799</u>	<u>-</u>	<u>175,000</u>	<u>448,383</u>	<u>448,383</u>		
Total primary government	<u>\$ 4,096,144</u>	<u>\$ 1,905,237</u>	<u>\$ 504,657</u>	<u>\$ 213,851</u>	<u>(1,920,782)</u>	<u>448,383</u>	<u>(1,472,399)</u>	
Component unit - Downtown Development Authority	<u>\$ 340,415</u>	<u>\$ 61,737</u>	<u>\$ 938</u>	<u>\$ -</u>			<u>\$ (277,740)</u>	
General revenues:								
Property taxes					1,419,442	-	1,419,442	137,026
State shared revenue					391,171	-	391,171	-
Local community stabilization revenue					-	-	-	122,082
Public service tax					68,909	-	68,909	-
Franchise fees					51,659	-	51,659	-
Interest income					15,867	5,742	21,609	876
Total general revenues					<u>1,947,048</u>	<u>5,742</u>	<u>1,952,790</u>	<u>259,984</u>
Changes in net position					26,266	454,125	480,391	(17,756)
Net position - beginning					8,112,540	6,649,728	14,762,268	2,373,529
Net position - ending					<u>\$ 8,138,806</u>	<u>\$ 7,103,853</u>	<u>\$ 15,242,659</u>	<u>\$ 2,355,773</u>

See notes to financial statements

BALANCE SHEET - governmental funds

June 30, 2018

	<i>Special revenue</i>					<i>Total governmental funds</i>
	<i>General</i>	<i>Major Street</i>	<i>Local Street</i>	<i>Public Safety</i>	<i>Nonmajor funds</i>	
ASSETS						
Cash	\$ 509,529	\$ 122,172	\$ 188,537	\$ 10,189	\$ 278,505	\$ 1,108,932
Investments	259,804	12,054	71,829	13,295	142,183	499,165
Receivables	97,043	59,521	18,998	73,747	62,056	311,365
Due from other funds	230	-	-	-	-	230
Prepays	20,295	1,676	1,344	20,310	-	43,625
	<u>886,901</u>	<u>195,423</u>	<u>280,708</u>	<u>117,541</u>	<u>482,744</u>	<u>1,963,317</u>
Total assets	<u>\$ 886,901</u>	<u>\$ 195,423</u>	<u>\$ 280,708</u>	<u>\$ 117,541</u>	<u>\$ 482,744</u>	<u>\$ 1,963,317</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Payables	\$ 42,593	\$ 1,002	\$ 1,360	\$ 24,640	\$ -	\$ 69,595
Accrued payroll liabilities	8,802	706	1,319	15,482	-	26,309
Due to other funds	-	-	-	1,453	-	1,453
Due to other governmental units	15,168	-	-	-	-	15,168
	<u>66,563</u>	<u>1,708</u>	<u>2,679</u>	<u>41,575</u>	<u>-</u>	<u>112,525</u>
Total liabilities	<u>66,563</u>	<u>1,708</u>	<u>2,679</u>	<u>41,575</u>	<u>-</u>	<u>112,525</u>
Deferred inflows of resources - unavailable special assessment revenue	-	-	-	-	51,250	51,250
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,250</u>	<u>51,250</u>
Fund balances:						
Nonspendable - prepaid items	20,295	1,676	1,344	20,310	-	43,625
Restricted for public works	53,940	192,039	276,685	-	73,585	596,249
Committed for:						
Public works	-	-	-	-	330,677	330,677
Capital outlay	-	-	-	-	27,232	27,232
Assigned for public safety	-	-	-	55,656	-	55,656
Unassigned	746,103	-	-	-	-	746,103
	<u>820,338</u>	<u>193,715</u>	<u>278,029</u>	<u>75,966</u>	<u>431,494</u>	<u>1,799,542</u>
Total fund balances	<u>820,338</u>	<u>193,715</u>	<u>278,029</u>	<u>75,966</u>	<u>431,494</u>	<u>1,799,542</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 886,901</u>	<u>\$ 195,423</u>	<u>\$ 280,708</u>	<u>\$ 117,541</u>	<u>\$ 482,744</u>	<u>\$ 1,963,317</u>
Reconciliation of the balance sheet to the statement of net position:						
Total fund balance - total governmental funds						\$ 1,799,542
Amounts reported for <i>governmental activities</i> in the statement of net position (page 15) are different because:						
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.						5,562,224
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows in the funds.						51,250
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.						(49,766)
The assets and liabilities of the internal service fund are included in <i>governmental activities</i> in the statement of net position.						<u>775,556</u>
Net position of <i>governmental activities</i>						<u>\$ 8,138,806</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended June 30, 2018

	<u>Special revenue</u>					<u>Total governmental funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Public Safety</u>	<u>Nonmajor funds</u>	
REVENUES						
Property taxes	\$ 1,239,375	\$ -	\$ -	\$ 183,013	\$ 41,323	\$ 1,463,711
Licenses and permits	52,806	-	-	39,466	-	92,272
State grants	391,171	352,238	121,518	1,158	-	866,085
Intergovernmental	26,945	-	-	87,563	79,691	194,199
Charges for services	49,250	3,929	-	3,607	-	56,786
Fines and forfeitures	-	-	-	13,420	-	13,420
Interest and rentals	8,406	109	1,520	295	3,238	13,568
Other	5,698	626	432	9,148	12,578	28,482
Total revenues	<u>1,773,651</u>	<u>356,902</u>	<u>123,470</u>	<u>337,670</u>	<u>136,830</u>	<u>2,728,523</u>
EXPENDITURES						
Current:						
General government	446,624	-	-	-	-	446,624
Public safety	-	-	-	1,072,155	-	1,072,155
Public works	442,213	144,812	121,062	-	614	708,701
Health and welfare	7,898	-	-	-	-	7,898
Community and economic development	29,387	-	-	-	-	29,387
Recreation and culture	101,125	-	-	-	-	101,125
Capital outlay	-	492,605	115,901	-	109,005	717,511
Debt service:						
Principal	-	-	-	-	43,000	43,000
Interest	-	-	-	-	568	568
Total expenditures	<u>1,027,247</u>	<u>637,417</u>	<u>236,963</u>	<u>1,072,155</u>	<u>153,187</u>	<u>3,126,969</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>746,404</u>	<u>(280,515)</u>	<u>(113,493)</u>	<u>(734,485)</u>	<u>(16,357)</u>	<u>(398,446)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	462,753	20,833	901,191	116,862	1,501,639
Transfers out	(927,191)	-	-	(90,740)	(483,708)	(1,501,639)
Net other financing sources (uses)	<u>(927,191)</u>	<u>462,753</u>	<u>20,833</u>	<u>810,451</u>	<u>(366,846)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>(180,787)</u>	<u>182,238</u>	<u>(92,660)</u>	<u>75,966</u>	<u>(383,203)</u>	<u>(398,446)</u>
FUND BALANCES - BEGINNING	<u>1,001,125</u>	<u>11,477</u>	<u>370,689</u>	<u>-</u>	<u>814,697</u>	<u>2,197,988</u>
FUND BALANCES - ENDING	<u>\$ 820,338</u>	<u>\$ 193,715</u>	<u>\$ 278,029</u>	<u>\$ 75,966</u>	<u>\$ 431,494</u>	<u>\$ 1,799,542</u>

See notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds (Continued)

Year ended June 30, 2018

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 18)	\$ (398,446)
Amounts reported for <i>governmental activities</i> in the statement of activities (page 16) are different because:	
Capital assets:	
Asset acquisitions	735,779
Basis of assets disposed	(30,867)
Provision for depreciation	(398,205)
Long-term debt:	
Principal payments	43,000
Deferred inflows of resources:	
Net increase in unavailable special assessments	15,490
Changes in other assets/liabilities:	
Net decrease in compensated absences	219
The net revenues of the internal service fund are reported with governmental activities.	<u>59,296</u>
Change in net position of <i>governmental activities</i>	<u>\$ 26,266</u>

STATEMENT OF NET POSITION - proprietary funds

June 30, 2018

	<i>Business-type activities</i>				<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>Internal service</i>
ASSETS					
Current assets:					
Cash	\$ 493,467	\$ 437,033	\$ 175,988	\$ 1,106,488	\$ 262,355
Investments	16,923	284,703	107,170	408,796	143,068
Receivables	727,718	128,871	-	856,589	424
Due from other funds	-	-	-	-	1,531
Inventory	1,039	32,650	46,545	80,234	13,416
Prepays	5,423	2,598	-	8,021	7,084
Total current assets	1,244,570	885,855	329,703	2,460,128	427,878
Noncurrent assets:					
Land	23,052	-	-	23,052	-
Construction in progress	1,328,703	-	-	1,328,703	-
Capital assets, net of accumulated depreciation:					
Sewer system	3,551,191	-	-	3,551,191	-
Water system	-	1,454,744	-	1,454,744	-
Buildings and equipment	-	-	-	-	361,785
Total noncurrent assets	4,902,946	1,454,744	-	6,357,690	361,785
Total assets	6,147,516	2,340,599	329,703	8,817,818	789,663
LIABILITIES					
Current liabilities:					
Accounts payable	748,167	5,391	-	753,558	13,050
Accrued payroll liabilities	4,516	3,366	-	7,882	494
Due to other funds	215	93	-	308	-
Current portion of long-term obligations	50,000	-	-	50,000	-
Total current liabilities	802,898	8,850	-	811,748	13,544
Noncurrent liabilities:					
Compensated absences	4,550	2,226	-	6,776	563
Long-term obligations	895,441	-	-	895,441	-
Total noncurrent liabilities	899,991	2,226	-	902,217	563
Total liabilities	1,702,889	11,076	-	1,713,965	14,107
NET POSITION					
Net investment in capital assets	3,957,505	1,454,744	-	5,412,249	361,785
Unrestricted	487,122	874,779	329,703	1,691,604	413,771
Total net position	\$ 4,444,627	\$ 2,329,523	\$ 329,703	\$ 7,103,853	\$ 775,556

See notes to financial statements

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
proprietary funds**

Year ended June 30, 2018

	<i>Business-type activities</i>				<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Projects</i>	<i>Totals</i>	<i>Internal service</i>
OPERATING REVENUES					
Charges for services	\$ 851,634	\$ 585,296	\$ 163,460	\$ 1,600,390	\$ 216,211
Other	33,810	15,599	-	49,409	17,663
Total operating revenues	885,444	600,895	163,460	1,649,799	233,874
OPERATING EXPENSES					
Mains	140,404	223,190	-	363,594	-
Wastewater treatment plant	382,092	-	-	382,092	-
Water pumping	-	115,430	-	115,430	-
Cost of lots sold	-	-	166,324	166,324	-
Administration	54,855	55,492	-	110,347	38,975
Other	-	-	-	-	84,506
Depreciation	165,283	73,346	-	238,629	53,996
Total operating expenses	742,634	467,458	166,324	1,376,416	177,477
OPERATING INCOME (LOSS)	142,810	133,437	(2,864)	273,383	56,397
NONOPERATING REVENUES					
Forgiveness of debt	175,000	-	-	175,000	-
Gain on sale of capital assets	-	-	-	-	600
Interest income	251	4,228	1,263	5,742	2,299
Total nonoperating revenues	175,251	4,228	1,263	180,742	2,899
CHANGES IN NET POSITION	318,061	137,665	(1,601)	454,125	59,296
NET POSITION - BEGINNING	4,126,566	2,191,858	331,304	6,649,728	716,260
NET POSITION - ENDING	\$ 4,444,627	\$ 2,329,523	\$ 329,703	\$ 7,103,853	\$ 775,556

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary funds

Year ended June 30, 2018

	<i>Business-type activities</i>				<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>Internal service</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 847,650	\$ 596,338	\$ 163,460	\$ 1,607,448	\$ 17,790
Receipts from interfund services provided	-	-	-	-	216,211
Payments to suppliers	(348,431)	(248,928)	(1,493)	(598,852)	(87,645)
Payments to employees	(202,654)	(119,438)	-	(322,092)	(26,774)
Payments for interfund services received	(14,186)	(29,051)	-	(43,237)	-
Net cash provided by operating activities	<u>282,379</u>	<u>198,921</u>	<u>161,967</u>	<u>643,267</u>	<u>119,582</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Increase (decrease) in due to other funds	<u>56</u>	<u>25</u>	<u>-</u>	<u>81</u>	<u>(219)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from issuance of capital debt	645,539	-	-	645,539	-
Proceeds from sale of capital assets	-	-	-	-	20,727
Decrease in payables	(112,683)	(91,860)	-	(204,543)	-
Acquisition of capital assets	(678,695)	(20,527)	-	(699,222)	(53,049)
Net cash used in capital and related financing activities	<u>(145,839)</u>	<u>(112,387)</u>	<u>-</u>	<u>(258,226)</u>	<u>(32,322)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	-	-	366	366	446
Purchase of investments	-	-	(100,000)	(100,000)	(40,000)
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>	<u>(99,634)</u>	<u>(99,634)</u>	<u>(39,554)</u>
NET INCREASE IN CASH	<u>136,596</u>	<u>86,559</u>	<u>62,333</u>	<u>285,488</u>	<u>47,487</u>
CASH - BEGINNING	<u>356,871</u>	<u>350,474</u>	<u>113,655</u>	<u>821,000</u>	<u>214,868</u>
CASH - ENDING	<u>\$ 493,467</u>	<u>\$ 437,033</u>	<u>\$ 175,988</u>	<u>\$ 1,106,488</u>	<u>\$ 262,355</u>

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended June 30, 2018

	<i>Business-type activities</i>				<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>Internal service</i>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 142,810	\$ 133,437	\$ (2,864)	\$ 273,383	\$ 56,397
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	165,283	73,346	-	238,629	53,996
(Increase) decrease in:					
Receivables	(37,794)	(4,557)	-	(42,351)	127
Inventory	(510)	(8,472)	164,831	155,849	(1,962)
Prepaid expenses	637	82	-	719	486
Increase (decrease) in:					
Accounts payable	11,066	3,926	-	14,992	10,157
Accrued payroll liabilities	630	1,209	-	1,839	279
Compensated absences	257	(50)	-	207	102
Net cash provided by operating activities	<u>\$ 282,379</u>	<u>\$ 198,921</u>	<u>\$ 161,967</u>	<u>\$ 643,267</u>	<u>\$ 119,582</u>
Noncash capital and related financing activities:					
Issuance of capital debt	\$ 1,120,441	\$ -	\$ -	\$ 1,120,441	\$ -
Less increase in receivables	(474,902)	-	-	(474,902)	-
Net cash provided	<u>\$ 645,539</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 645,539</u>	<u>\$ -</u>
Acquisition of capital assets	\$ (1,402,884)	\$ (20,527)	\$ -	\$ (1,423,411)	\$ (53,049)
Less increase in payables	724,189	-	-	724,189	-
Net cash used	<u>\$ (678,695)</u>	<u>\$ (20,527)</u>	<u>\$ -</u>	<u>\$ (699,222)</u>	<u>\$ (53,049)</u>

See notes to 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 statement of activities demonstrates the degree to which the direct expenses of a given function 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; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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 Public Safety Fund, a special revenue fund, accounts for operational revenues and expenditures for the public safety functions of the City, the majority of the revenues are derived from property taxes and charges for service.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 assets, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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, 2018.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments, as of June 30, 2018, are classified in the accompanying financial statements as follows:

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Total primary government</i>	<i>Discretely presented component unit</i>	<i>Totals</i>
Cash	\$ 1,371,287	\$ 1,106,488	\$ 2,477,775	\$ 69,689	\$ 2,547,464
Investments	<u>642,233</u>	<u>408,796</u>	<u>1,051,029</u>	<u>42,914</u>	<u>1,093,943</u>
Totals	<u>\$ 2,013,520</u>	<u>\$ 1,515,284</u>	<u>\$ 3,528,804</u>	<u>\$ 112,603</u>	<u>\$ 3,641,407</u>

Cash and investments, as of June 30, 2018, consist of the following:

Cash on hand	\$ 2,222
Deposits with financial institutions	2,545,242
Investments	<u>1,093,943</u>
Total	<u>\$ 3,641,407</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, 2018, \$1,631,400 of the City’s bank balances (including the component unit) of \$2,582,296 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.

NOTE 3 - CASH AND INVESTMENTS (Continued)

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.

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 CLASS Fund, with a balance of \$1,093,943 at June 30, 2018, was measured at net asset value (or its equivalent) as a practical expedient and, accordingly, has not been classified in the fair value hierarchy.

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2018, for the City's individual major funds and nonmajor funds, in the aggregate, were as follows:

<i>Funds</i>	<i>Accounts</i>	<i>Interest</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Inter-governmental</i>	<i>Totals</i>
Governmental:						
General	\$ 14,023	\$ 452	\$ 190	\$ -	\$ 82,378	\$ 97,043
Major Street	953	-	-	-	58,568	59,521
Local Street	937	90	-	-	17,971	18,998
Public Safety	5,521	-	-	-	68,226	73,747
Nonmajor	-	23	-	51,250	10,783	62,056
Total governmental	<u>\$ 21,434</u>	<u>\$ 565</u>	<u>\$ 190</u>	<u>\$ 51,250</u>	<u>\$ 237,926</u>	<u>\$ 311,365</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,584</u>	<u>\$ -</u>	<u>\$ 44,584</u>
Proprietary:						
Enterprise:						
Sewer	\$ 252,816	\$ -	\$ -	\$ -	\$ 474,902	\$ 727,718
Water	128,871	-	-	-	-	128,871
Total enterprise	381,687	-	-	-	474,902	856,589
Internal service	418	6	-	-	-	424
Total proprietary	<u>\$ 382,105</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 474,902</u>	<u>\$ 857,013</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, 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	21,565	-	2,206,896
Improvements	4,281,851	608,507	-	4,890,358
Furniture, fixtures, and equipment	789,091	53,049	(22,761)	819,379
Vehicles	1,534,619	58,880	(45,507)	1,547,992
Subtotal	<u>8,790,892</u>	<u>742,001</u>	<u>(68,268)</u>	<u>9,464,625</u>
Less accumulated depreciation for:				
Buildings	(926,379)	(48,729)	-	(975,108)
Improvements	(1,465,640)	(290,989)	-	(1,756,629)
Furniture, fixtures, and equipment	(615,033)	(28,463)	22,761	(620,735)
Vehicles	(978,676)	(84,021)	41,341	(1,021,356)
Subtotal	<u>(3,985,728)</u>	<u>(452,202)</u>	<u>64,102</u>	<u>(4,373,828)</u>
Total capital assets being depreciated, net	<u>4,805,164</u>	<u>289,799</u>	<u>(4,166)</u>	<u>5,090,797</u>
Governmental activities capital assets, net	<u>\$ 5,638,376</u>	<u>\$ 289,799</u>	<u>\$ (4,166)</u>	<u>\$ 5,924,009</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 23,052	\$ -	\$ -	\$ 23,052
Construction in progress	-	1,328,703	-	1,328,703
Subtotal	<u>23,052</u>	<u>1,328,703</u>	<u>-</u>	<u>1,351,755</u>
Capital assets being depreciated:				
Sewer system	6,314,599	74,181	(33,909)	6,354,871
Water system	3,009,658	20,527	(85,604)	2,944,581
Subtotal	<u>9,324,257</u>	<u>94,708</u>	<u>(119,513)</u>	<u>9,299,452</u>
Less accumulated depreciation for:				
Sewer system	(2,672,306)	(165,283)	33,909	(2,803,680)
Water system	(1,502,095)	(73,346)	85,604	(1,489,837)
Subtotal	<u>(4,174,401)</u>	<u>(238,629)</u>	<u>119,513</u>	<u>(4,293,517)</u>
Total capital assets being depreciated, net	<u>5,149,856</u>	<u>(143,921)</u>	<u>-</u>	<u>5,005,935</u>
Business-type activities capital assets, net	<u>\$ 5,172,908</u>	<u>\$ 1,184,782</u>	<u>\$ -</u>	<u>\$ 6,357,690</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	85,577	-	2,963,929
Equipment	37,130	-	-	37,130
Subtotal	<u>2,915,482</u>	<u>85,577</u>	<u>-</u>	<u>3,001,059</u>
Less accumulated depreciation for:				
Buildings and improvements	(741,026)	(78,124)	-	(819,150)
Equipment	(17,635)	(1,856)	-	(19,491)
Subtotal	<u>(758,661)</u>	<u>(79,980)</u>	<u>-</u>	<u>(838,641)</u>
Total capital assets being depreciated, net	<u>2,156,821</u>	<u>5,597</u>	<u>-</u>	<u>2,162,418</u>
Component unit capital assets, net	<u>\$ 2,254,890</u>	<u>\$ 5,597</u>	<u>\$ -</u>	<u>\$ 2,260,487</u>

Depreciation expense was charged to functions of the City’s governmental activities as follows:

Governmental activities:	
General government	\$ 22,244
Public safety	72,517
Public works	299,921
Recreation and culture	3,524
Depreciation on capital assets held by internal service fund	<u>53,996</u>
Total governmental activities	<u>\$ 452,202</u>

NOTE 6 - LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2018, consist of the following individual issue:

Business-type:	
\$1,325,000 2017 State Revolving Fund revenue bonds - payable in annual installments ranging from \$50,000 to \$85,000, plus interest at 2.50%, secured by the full faith and credit of the City; final payment due April 2038	<u>\$ 945,441</u>

NOTE 6 - LONG-TERM OBLIGATIONS (Continued)

Long-term obligations activity for the year ended June 30, 2018, 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	\$ 43,000	\$ -	\$ (43,000)	\$ -	\$ -
Compensated absences	<u>50,446</u>	<u>74,863</u>	<u>(74,980)</u>	<u>50,329</u>	<u>32,643</u>
Total governmental activities	<u>\$ 93,446</u>	<u>\$ 74,863</u>	<u>\$ (117,980)</u>	<u>\$ 50,329</u>	<u>\$ 32,643</u>
<i>Business-type activities:</i>					
SRF bonds payable	\$ -	\$ 1,120,441	\$ (175,000)	\$ 945,441	\$ 50,000
Compensated absences	<u>6,569</u>	<u>15,415</u>	<u>(15,208)</u>	<u>6,776</u>	<u>-</u>
Total business-type activities	<u>\$ 6,569</u>	<u>\$ 1,135,856</u>	<u>\$ (190,208)</u>	<u>\$ 952,217</u>	<u>\$ 50,000</u>
<i>Component unit:</i>					
Compensated absences	<u>\$ 229</u>	<u>\$ 2,708</u>	<u>\$ (2,061)</u>	<u>\$ 876</u>	<u>\$ -</u>

Debt service requirements at June 30, 2018, excluding compensated absences, were as follows:

<u>Year ended June 30:</u>	<i>Primary government:</i>	
	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 50,000	\$ 17,632
2020	55,000	20,761
2021	55,000	19,386
2022	55,000	18,010
2023	55,000	16,636
2024-2028	310,000	61,179
2029-2033	350,000	20,554
2034-2038	<u>15,441</u>	<u>386</u>
Total	<u>\$ 945,441</u>	<u>\$ 174,544</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	\$ 1,531	Public Safety	\$ 1,223
		Sewer	215
		Water	<u>93</u>
			1,531
General	<u>230</u>	Public Safety	<u>230</u>
Totals	<u>\$ 1,761</u>		<u>\$ 1,761</u>

The interfund balances, due to the DPW Equipment Fund, represent current amounts due for equipment charges, and the amount due to the General Fund, from the Public Safety Fund, represents costs not yet reimbursed.

Interfund transfers occurred during the year ended June 30, 2018, as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
Major Street	\$ 434,685	Street and Bridge	\$ 455,518
Local Street	<u>20,833</u>		
	455,518		
Major Street	28,068	Special Assessment	28,068
Public Safety	900,555	General	900,555
Capital Improvement	27,400	General	20,000
		Public Safety	<u>7,400</u>
			<u>27,400</u>
Equipment Replacement	<u>89,462</u>	General	6,000
		Public Safety	83,340
		Equipment and Replacement Debt	<u>122</u>
			<u>89,462</u>
Total	<u>\$ 1,501,003</u>		<u>\$ 1,501,003</u>

- A nonmajor governmental fund, the Street and Bridge Fund, transferred available restricted funds to the Major Street and Local Street funds to finance street preservation costs.
- A nonmajor governmental fund, the Special Assessment Fund, transferred available restricted funds to the Major Street Fund to support street improvement costs.
- The General Fund transfer to the Public Safety fund represents unrestricted funds to support expenditures recorded in the new Public Safety Fund.

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

- Transfers to the Capital Improvement Fund from the General and Public Safety funds represent funds set aside for future capital acquisitions.
- Transfers to the Equipment Replacement Fund from the General, Public Safety, and Equipment and Replacement Debt funds represent support for capital acquisitions.

NOTE 8 - PROPERTY TAX REVENUES

The taxable valuation of the City, for the 2017 tax year, approximated \$80,840,000, on which ad valorem taxes levied consisted of 12.0600 mills for operating purposes, 1.8436 mills for solid waste/recycling, 1.9958 mills for public safety, and 0.4507 mills for debt service, raising approximately \$1,115,000 for operating purposes, \$170,000 for solid waste/recycling, \$183,000 for public safety, and \$41,000 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, 2018, employee contributions totaled \$28,233, and the City recognized pension expense of \$116,695.

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, 2018, there were no forfeitures and the City reported \$1,640 in accrued liabilities as part of the contributions to the Plan.

NOTE 10 - CONTINGENT LIABILITY

The City is contingently liable to its employees for \$261,669 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 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended June 30, 2018, is as follows. At June 30, 2018, there was a cumulative deficiency of revenues of \$2,644 from construction code enforcement activities.

Revenues	\$ 35,681
Expenses	<u>38,239</u>
Deficiency of revenues over expenses	<u>\$ (2,558)</u>

NOTE 13 - RESTRICTED NET POSITION

The government-wide statement of net position reports \$599,269 of restricted net position, which is restricted by enabling legislation for public works expenditures.

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 percent 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, 2018, the City abated property taxes totaling \$172,691 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%	\$ 171,889
Industrial building rehabilitation	PA 198 of 1974	22%	<u>802</u>
Total taxes abated			<u>\$ 172,691</u>

NOTE 15 - ECONOMIC DEPENDENCY

For the fiscal year ended June 30, 2018, the City received approximately 14 percent of its property tax revenue and 15 percent of its utility revenues from one industrial property owner.

NOTE 16 - COMMITMENT

At June 30, 2018, the City had the following contractual commitments:

	<u>Project authorization</u>	<u>Expended through June 30, 2018</u>	<u>Committed</u>
WWTP Improvements - CWSRF	\$ 1,299,315	\$ 992,270	\$ 307,045
WWTP Improvements - Telemetry	265,800	169,547	96,253
WWTP Improvements - Engineering	<u>308,545</u>	<u>243,588</u>	<u>64,957</u>
Total	<u>\$ 1,873,660</u>	<u>\$ 1,405,405</u>	<u>\$ 468,255</u>

These wastewater treatment plant improvements are being funded through the issuance of bonds and available resources of the Sewer Fund.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 1,243,085	\$ 1,243,085	\$ 1,239,375	\$ (3,710)
Licenses and permits	55,200	55,200	52,806	(2,394)
State grants	785,700	785,700	391,171	(394,529)
Intergovernmental	25,400	25,400	26,945	1,545
Charges for services	37,350	37,350	49,250	11,900
Interest and rentals	2,500	2,500	8,406	5,906
Other	2,500	2,500	5,698	3,198
Total revenues	<u>2,151,735</u>	<u>2,151,735</u>	<u>1,773,651</u>	<u>(378,084)</u>
EXPENDITURES				
General government	482,195	513,845	446,624	67,221
Public works	453,140	491,340	442,213	49,127
Health and welfare	8,620	8,620	7,898	722
Community and economic development	31,685	31,685	29,387	2,298
Recreation and culture	143,405	143,405	101,125	42,280
Total expenditures	<u>1,119,045</u>	<u>1,188,895</u>	<u>1,027,247</u>	<u>161,648</u>
EXCESS OF REVENUES OVER EXPENDITURES	1,032,690	962,840	746,404	(216,436)
OTHER FINANCING USES				
Transfers out	<u>(876,555)</u>	<u>(926,555)</u>	<u>(927,191)</u>	<u>(636)</u>
NET CHANGES IN FUND BALANCES	156,135	36,285	(180,787)	(217,072)
FUND BALANCES - BEGINNING	<u>1,001,125</u>	<u>1,001,125</u>	<u>1,001,125</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,157,260</u>	<u>\$ 1,037,410</u>	<u>\$ 820,338</u>	<u>\$ (217,072)</u>

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
State grants	\$ 307,545	\$ 307,545	\$ 352,238	\$ 44,693
Charges for services	2,500	2,500	3,929	1,429
Interest	400	400	109	(291)
Other	-	-	626	626
Total revenues	<u>310,445</u>	<u>310,445</u>	<u>356,902</u>	<u>46,457</u>
EXPENDITURES				
Public works	209,095	215,180	144,812	70,368
Capital outlay	460,520	492,620	492,605	15
Total expenditures	<u>669,615</u>	<u>707,800</u>	<u>637,417</u>	<u>70,383</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(359,170)	(397,355)	(280,515)	116,840
OTHER FINANCING SOURCES				
Transfers in	389,685	462,785	462,753	(32)
NET CHANGES IN FUND BALANCES	30,515	65,430	182,238	116,808
FUND BALANCES - BEGINNING	<u>11,477</u>	<u>11,477</u>	<u>11,477</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 41,992</u>	<u>\$ 76,907</u>	<u>\$ 193,715</u>	<u>\$ 116,808</u>

BUDGETARY COMPARISON SCHEDULE - Local Street Fund

Year ended June 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
State grants	\$ 107,610	\$ 107,610	\$ 121,518	\$ 13,908
Charges for services	2,500	2,500	-	(2,500)
Interest	250	250	1,520	1,270
Other	-	-	432	432
	<u>110,360</u>	<u>110,360</u>	<u>123,470</u>	<u>13,110</u>
Total revenues				
EXPENDITURES				
Public works	176,715	176,715	121,062	55,653
Capital outlay	95,000	116,000	115,901	99
	<u>271,715</u>	<u>292,715</u>	<u>236,963</u>	<u>55,752</u>
Total expenditures				
DEFICIENCY OF REVENUES OVER EXPENDITURES	(161,355)	(182,355)	(113,493)	68,862
OTHER FINANCING SOURCES				
Transfers in	50,000	50,000	20,833	(29,167)
NET CHANGES IN FUND BALANCES	(111,355)	(132,355)	(92,660)	39,695
FUND BALANCES - BEGINNING	<u>370,689</u>	<u>370,689</u>	<u>370,689</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 259,334</u>	<u>\$ 238,334</u>	<u>\$ 278,029</u>	<u>\$ 39,695</u>

BUDGETARY COMPARISON SCHEDULE - Public safety

Year ended June 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 183,085	\$ 183,085	\$ 183,013	\$ (72)
Licenses and permits	26,550	37,650	39,466	1,816
State grants	800	800	1,158	358
Intergovernmental	100,000	100,000	87,563	(12,437)
Charges for services	4,200	4,200	3,607	(593)
Fines and forfeitures	16,000	16,000	13,420	(2,580)
Interest and rentals	-	-	295	295
Other	-	-	9,148	9,148
	<u>330,635</u>	<u>341,735</u>	<u>337,670</u>	<u>(4,065)</u>
Total revenues				
EXPENDITURES				
Public safety:				
Police Department	864,280	864,280	849,972	14,308
Fire Department	219,595	219,595	183,944	35,651
Building inspections	26,615	36,690	38,239	(1,549)
	<u>1,110,490</u>	<u>1,120,565</u>	<u>1,072,155</u>	<u>48,410</u>
Total expenditures				
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	<u>(779,855)</u>	<u>(778,830)</u>	<u>(734,485)</u>	<u>44,345</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	850,555	900,555	901,191	636
Transfers out	(70,700)	(90,740)	(90,740)	-
	<u>779,855</u>	<u>809,815</u>	<u>810,451</u>	<u>636</u>
Net other financing sources (uses)				
NET CHANGES IN FUND BALANCES				
	-	30,985	75,966	44,981
FUND BALANCES - BEGINNING				
	-	-	-	-
FUND BALANCES - ENDING				
	<u>\$ -</u>	<u>\$ 30,985</u>	<u>\$ 75,966</u>	<u>\$ 44,981</u>

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET - nonmajor governmental funds

June 30, 2018

	<i>Special revenue</i>	<i>Capital projects</i>			<i>Debt service</i>	<i>Totals</i>
	<i>Street and Bridge</i>	<i>Capital Projects</i>	<i>Equipment and Replacement Capital Project</i>	<i>Special Assessment</i>	<i>Equipment and Replacement Debt</i>	
ASSETS						
Cash	\$ 69,585	\$ 5,824	\$ 456	\$ 202,640	\$ -	\$ 278,505
Investments	4,000	-	10,158	128,025	-	142,183
Receivables	-	10,794	-	51,262	-	62,056
Total assets	<u>\$ 73,585</u>	<u>\$ 16,618</u>	<u>\$ 10,614</u>	<u>\$ 381,927</u>	<u>\$ -</u>	<u>\$ 482,744</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Deferred inflows of resources - unavailable special assessment revenue	\$ -	\$ -	\$ -	\$ 51,250	\$ -	\$ 51,250
Fund balances:						
Restricted for public works	73,585	-	-	-	-	73,585
Committed for public works:						
Public works	-	-	-	330,677	-	330,677
Capital outlay	-	16,618	10,614	-	-	27,232
Total fund balances	<u>73,585</u>	<u>16,618</u>	<u>10,614</u>	<u>330,677</u>	<u>-</u>	<u>431,494</u>
Total deferred inflows of resources and fund balances	<u>\$ 73,585</u>	<u>\$ 16,618</u>	<u>\$ 10,614</u>	<u>\$ 381,927</u>	<u>\$ -</u>	<u>\$ 482,744</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - nonmajor governmental funds

Year ended June 30, 2018

	<i>Special revenue</i>		<i>Capital projects</i>		<i>Debt service</i>		<i>Totals</i>
	<i>Street and Bridge</i>	<i>Capital Projects</i>	<i>Equipment Replacement Capital Project</i>	<i>Special Assessment</i>	<i>Equipment and Replacement Debt</i>		
REVENUES							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 41,323	\$ 41,323	\$ 41,323
Intergovernmental	68,908	10,783	-	-	-	79,691	79,691
Interest	181	-	158	2,717	182	3,238	3,238
Other	-	-	-	12,578	-	12,578	12,578
Total revenues	<u>69,089</u>	<u>10,783</u>	<u>158</u>	<u>15,295</u>	<u>41,505</u>	<u>136,830</u>	<u>136,830</u>
EXPENDITURES							
Current:							
Public works	614	-	-	-	-	614	614
Capital outlay	-	21,565	79,006	8,434	-	109,005	109,005
Debt service:							
Principal	-	-	-	-	43,000	43,000	43,000
Interest	-	-	-	-	568	568	568
Total expenditures	<u>614</u>	<u>21,565</u>	<u>79,006</u>	<u>8,434</u>	<u>43,568</u>	<u>153,187</u>	<u>153,187</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>68,475</u>	<u>(10,782)</u>	<u>(78,848)</u>	<u>6,861</u>	<u>(2,063)</u>	<u>(16,357)</u>	<u>(16,357)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	27,400	89,462	-	-	116,862	116,862
Transfers out	(455,518)	-	-	(28,068)	(122)	(483,708)	(483,708)
Net other financing sources (uses)	<u>(455,518)</u>	<u>27,400</u>	<u>89,462</u>	<u>(28,068)</u>	<u>(122)</u>	<u>(366,846)</u>	<u>(366,846)</u>
NET CHANGES IN FUND BALANCES	<u>(387,043)</u>	<u>16,618</u>	<u>10,614</u>	<u>(21,207)</u>	<u>(2,185)</u>	<u>(383,203)</u>	<u>(383,203)</u>
FUND BALANCES - BEGINNING	<u>460,628</u>	<u>-</u>	<u>-</u>	<u>351,884</u>	<u>2,185</u>	<u>814,697</u>	<u>814,697</u>
FUND BALANCES - ENDING	<u>\$ 73,585</u>	<u>\$ 16,618</u>	<u>\$ 10,614</u>	<u>\$ 330,677</u>	<u>\$ -</u>	<u>\$ 431,494</u>	<u>\$ 431,494</u>

BALANCE SHEET - governmental funds

June 30, 2018

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Public Safety</u>	<u>Street and Bridge</u>	<u>Capital Project</u>	<u>Equipment Replacement Capital Project</u>	<u>Special Assessment Capital Project</u>	<u>Equipment and Replacement Debt</u>
ASSETS									
Cash	\$ 509,529	\$ 122,172	\$ 188,537	\$ 10,189	\$ 69,585	\$ 5,824	\$ 456	\$ 202,640	\$ -
Investments	259,804	12,054	71,829	13,295	4,000	-	10,158	128,025	-
Receivables:									
Taxes	190	-	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-	51,250	-
Accounts	14,023	953	937	5,521	-	-	-	-	-
Interest	452	-	90	-	-	11	-	12	-
Due from other funds	230	-	-	-	-	-	-	-	-
Due from other governmental units	82,378	58,568	17,971	68,226	-	10,783	-	-	-
Prepays	20,295	1,676	1,344	20,310	-	-	-	-	-
	<u>\$ 886,901</u>	<u>\$ 195,423</u>	<u>\$ 280,708</u>	<u>\$ 117,541</u>	<u>\$ 73,585</u>	<u>\$ 16,618</u>	<u>\$ 10,614</u>	<u>\$ 381,927</u>	<u>\$ -</u>
Total assets									
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 42,593	\$ 1,002	\$ 1,360	\$ 24,640	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll liabilities	8,802	706	1,319	15,482	-	-	-	-	-
Due to other funds	-	-	-	1,453	-	-	-	-	-
Due to other governmental units	15,168	-	-	-	-	-	-	-	-
	<u>66,563</u>	<u>1,708</u>	<u>2,679</u>	<u>41,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities									
Deferred inflows of resources - unavailable special assessments	-	-	-	-	-	-	-	51,250	-
Fund balances:									
Nonspendable - prepaids	20,295	1,676	1,344	20,310	-	-	-	-	-
Restricted for public works	53,940	192,039	276,685	-	73,585	-	-	-	-
Committed for:									
Public works	-	-	-	-	-	-	-	330,677	-
Capital outlay	-	-	-	-	-	16,618	10,614	-	-
Assigned for public safety	-	-	-	55,656	-	-	-	-	-
Unassigned	746,103	-	-	-	-	-	-	-	-
	<u>820,338</u>	<u>193,715</u>	<u>278,029</u>	<u>75,966</u>	<u>73,585</u>	<u>16,618</u>	<u>10,614</u>	<u>330,677</u>	<u>-</u>
Total fund balances									
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 886,901</u>	<u>\$ 195,423</u>	<u>\$ 280,708</u>	<u>\$ 117,541</u>	<u>\$ 73,585</u>	<u>\$ 16,618</u>	<u>\$ 10,614</u>	<u>\$ 381,927</u>	<u>\$ -</u>

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2018

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
Property taxes	\$ 1,243,085	\$ 1,239,375	\$ (3,710)
Licenses and permits	55,200	52,806	(2,394)
State grants	785,700	391,171	(394,529)
Intergovernmental	25,400	26,945	1,545
Charges for services	37,350	49,250	11,900
Interest and rentals	2,500	8,406	5,906
Other	2,500	5,698	3,198
Total revenues	<u>2,151,735</u>	<u>1,773,651</u>	<u>(378,084)</u>
EXPENDITURES			
General government:			
Legislative	59,180	54,217	4,963
City manager	86,880	46,376	40,504
Elections	21,055	16,542	4,513
Assessor	38,215	34,327	3,888
Clerk	62,915	60,304	2,611
Board of review	1,355	902	453
Treasurer/finance director	172,360	169,513	2,847
Building and grounds	37,775	35,949	1,826
Cemetery	34,110	28,494	5,616
Total general government	<u>513,845</u>	<u>446,624</u>	<u>67,221</u>
Public works:			
Department of Public Works	59,625	50,686	8,939
General services	221,235	214,908	6,327
Recycling	133,100	112,465	20,635
Transfer station	77,380	64,154	13,226
Total public works	<u>491,340</u>	<u>442,213</u>	<u>49,127</u>

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES (Continued)			
Health and welfare - ambulance	\$ 8,620	\$ 7,898	\$ 722
Community and economic development	31,685	29,387	2,298
Recreation and culture - parks and recreation	143,405	101,125	42,280
Total expenditures	<u>1,188,895</u>	<u>1,027,247</u>	<u>161,648</u>
EXCESS OF REVENUES OVER EXPENDITURES	962,840	746,404	(216,436)
OTHER FINANCING USES			
Transfers out	<u>(926,555)</u>	<u>(927,191)</u>	<u>(636)</u>
NET CHANGES IN FUND BALANCES	36,285	(180,787)	(217,072)
FUND BALANCES - BEGINNING	<u>1,001,125</u>	<u>1,001,125</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,037,410</u>	<u>\$ 820,338</u>	<u>\$ (217,072)</u>

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES			
State grants	\$ 307,545	\$ 352,238	\$ 44,693
Charges for services	2,500	3,929	1,429
Interest	400	109	(291)
Other	-	626	626
Total revenues	<u>310,445</u>	<u>356,902</u>	<u>46,457</u>
EXPENDITURES			
Public works:			
Surface maintenance	43,360	30,082	13,278
Shoulder maintenance	24,425	17,449	6,976
Trees and shrubs	16,615	8,905	7,710
Drainage	16,005	9,768	6,237
Bridge maintenance	8,090	1,913	6,177
Traffic signs and signals	8,070	6,810	1,260
Winter maintenance	48,105	29,060	19,045
Administration	22,460	20,474	1,986
State trunk line maintenance	<u>28,050</u>	<u>20,351</u>	<u>7,699</u>
Total public works	215,180	144,812	70,368
Capital outlay	<u>492,620</u>	<u>492,605</u>	<u>15</u>
Total expenditures	<u>707,800</u>	<u>637,417</u>	<u>70,383</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(397,355)	(280,515)	116,840
OTHER FINANCING SOURCES			
Transfers in	<u>462,785</u>	<u>462,753</u>	<u>(32)</u>
NET CHANGES IN FUND BALANCES	65,430	182,238	116,808
FUND BALANCES - BEGINNING	<u>11,477</u>	<u>11,477</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 76,907</u>	<u>\$ 193,715</u>	<u>\$ 116,808</u>

BUDGETARY COMPARISON SCHEDULE - Local Street Fund

Year ended June 30, 2018

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
State grants	\$ 107,610	\$ 121,518	\$ 13,908
Charges for services	2,500	-	(2,500)
Interest	250	1,520	1,270
Other	-	432	432
	<u>110,360</u>	<u>123,470</u>	<u>13,110</u>
Total revenues			
EXPENDITURES			
Public works:			
Surface maintenance	39,485	32,895	6,590
Shoulder maintenance	24,255	12,840	11,415
Trees and shrubs	30,225	14,681	15,544
Drainage	21,495	16,892	4,603
Traffic signs and signals	5,585	3,299	2,286
Winter maintenance	35,480	23,875	11,605
Administration	20,190	16,580	3,610
	<u>176,715</u>	<u>121,062</u>	<u>55,653</u>
Total public works			
Capital outlay	<u>116,000</u>	<u>115,901</u>	<u>99</u>
Total expenditures	<u>292,715</u>	<u>236,963</u>	<u>55,752</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(182,355)	(113,493)	68,862
OTHER FINANCING SOURCES			
Transfers in	<u>50,000</u>	<u>20,833</u>	<u>(29,167)</u>
NET CHANGES IN FUND BALANCES	(132,355)	(92,660)	39,695
FUND BALANCES - BEGINNING	<u>370,689</u>	<u>370,689</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 238,334</u>	<u>\$ 278,029</u>	<u>\$ 39,695</u>

BUDGETARY COMPARISON SCHEDULE - Public Safety Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES			
Property taxes	\$ 183,085	\$ 183,013	\$ (72)
Licenses and permits	37,650	39,466	1,816
State grants	800	1,158	358
Intergovernmental	100,000	87,563	(12,437)
Charges for services	4,200	3,607	(593)
Fines and forfeitures	16,000	13,420	(2,580)
Interest and rentals	-	295	295
Other	-	9,148	9,148
	<u>341,735</u>	<u>337,670</u>	<u>(4,065)</u>
Total revenues			
EXPENDITURES			
Public safety:			
Police	864,280	849,972	14,308
Fire	219,595	183,944	35,651
Building inspections	36,690	38,239	(1,549)
	<u>1,120,565</u>	<u>1,072,155</u>	<u>48,410</u>
Total public safety			
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(778,830)</u>	<u>(734,485)</u>	<u>44,345</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	900,555	901,191	636
Transfers out	(90,740)	(90,740)	-
	<u>809,815</u>	<u>810,451</u>	<u>636</u>
Net other financing sources (uses)			
NET CHANGES IN FUND BALANCES	30,985	75,966	44,981
FUND BALANCES - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 30,985</u>	<u>\$ 75,966</u>	<u>\$ 44,981</u>

BUDGETARY COMPARISON SCHEDULE - Street and Bridge Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES			
Intergovernmental	\$ 87,000	\$ 68,908	\$ (18,092)
Interest	1,000	181	(819)
Total revenues	88,000	69,089	(18,911)
EXPENDITURES			
Public works	400	614	(214)
EXCESS OF REVENUES OVER EXPENDITURES			
	87,600	68,475	(19,125)
OTHER FINANCING USES			
Transfers out	(484,685)	(455,518)	29,167
NET CHANGES IN FUND BALANCES			
	(397,085)	(387,043)	10,042
FUND BALANCES - BEGINNING			
	460,628	460,628	-
FUND BALANCES - ENDING			
	<u>\$ 63,543</u>	<u>\$ 73,585</u>	<u>\$ 10,042</u>

BUDGETARY COMPARISON SCHEDULE - Capital Projects Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES			
Intergovernmental	\$ -	\$ 10,783	\$ 10,783
Interest	100	-	(100)
Total revenues	100	10,783	10,683
EXPENDITURES			
Capital outlay	24,000	21,565	2,435
DEFICIENCY OF REVENUES OVER EXPENDITURES			
	(23,900)	(10,782)	13,118
OTHER FINANCING SOURCES			
Transfers in	27,400	27,400	-
Total other financing sources	27,400	27,400	-
NET CHANGES IN FUND BALANCES			
	3,500	16,618	13,118
FUND BALANCES - BEGINNING			
	-	-	-
FUND BALANCES - ENDING			
	<u>\$ 3,500</u>	<u>\$ 16,618</u>	<u>\$ 13,118</u>

BUDGETARY COMPARISON SCHEDULE - Equipment Replacement Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES			
Interest	\$ -	\$ 158	\$ 158
EXPENDITURES			
Capital outlay	<u>79,040</u>	<u>79,006</u>	<u>34</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(79,040)	(78,848)	192
OTHER FINANCING SOURCES			
Transfers in	<u>89,340</u>	<u>89,462</u>	<u>122</u>
NET CHANGES IN FUND BALANCES	10,300	10,614	314
FUND BALANCES - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 10,300</u>	<u>\$ 10,614</u>	<u>\$ 314</u>

BUDGETARY COMPARISON SCHEDULE - Special Assessment Capital Project Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES			
Interest	\$ 1,450	\$ 2,717	\$ 1,267
Other - special assessment revenue	<u>5,725</u>	<u>12,578</u>	<u>6,853</u>
Total revenues	7,175	15,295	8,120
EXPENDITURES			
Capital outlay	<u>-</u>	<u>8,434</u>	<u>(8,434)</u>
EXCESS OF REVENUES OVER EXPENDITURES	7,175	6,861	(314)
OTHER FINANCING USES			
Transfers out	<u>(56,000)</u>	<u>(28,068)</u>	<u>27,932</u>
NET CHANGES IN FUND BALANCES	(48,825)	(21,207)	27,618
FUND BALANCES - BEGINNING	<u>351,884</u>	<u>351,884</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 303,059</u>	<u>\$ 330,677</u>	<u>\$ 27,618</u>

BUDGETARY COMPARISON SCHEDULE - Equipment and Replacement Debt Fund

Year ended June 30, 2018

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
Property taxes	\$ 41,285	\$ 41,323	\$ 38
Interest	100	182	82
Total revenues	<u>41,385</u>	<u>41,505</u>	<u>120</u>
EXPENDITURES			
Debt service:			
Principal	43,000	43,000	-
Interest	570	568	2
Total expenditures	<u>43,570</u>	<u>43,568</u>	<u>2</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(2,185)	(2,063)	122
Transfers out	-	(122)	(122)
Total other financing sources	<u>-</u>	<u>(122)</u>	<u>(122)</u>
NET CHANGES IN FUND BALANCES	(2,185)	(2,185)	-
FUND BALANCES - BEGINNING	<u>2,185</u>	<u>2,185</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BUDGETARY COMPARISON SCHEDULE - Sewer Fund

Year ended June 30, 2018

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
OPERATING REVENUES			
Charges for services	\$ 861,645	\$ 851,634	\$ (10,011)
Delinquent penalties	14,500	16,367	1,867
Other	-	17,443	17,443
Total operating revenues	<u>876,145</u>	<u>885,444</u>	<u>9,299</u>
OPERATING EXPENSES			
Mains	146,440	140,404	6,036
Wastewater treatment plant	464,600	382,092	82,508
Administration	61,160	54,855	6,305
Depreciation	196,000	165,283	30,717
Total operating expenses	<u>868,200</u>	<u>742,634</u>	<u>125,566</u>
OPERATING INCOME	<u>7,945</u>	<u>142,810</u>	<u>134,865</u>
NONOPERATING REVENUES			
Forgiveness of debt	-	175,000	175,000
Interest income	1,000	251	(749)
Total nonoperating revenues	<u>1,000</u>	<u>175,251</u>	<u>174,251</u>
CHANGES IN NET POSITION	8,945	318,061	309,116
NET POSITION - BEGINNING	<u>4,126,566</u>	<u>4,126,566</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ 4,135,511</u>	<u>\$ 4,444,627</u>	<u>\$ 309,116</u>

BUDGETARY COMPARISON SCHEDULE - Water Fund

Year ended June 30, 2018

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
OPERATING REVENUES			
Charges for services	\$ 526,810	\$ 585,296	\$ 58,486
Hydrant rentals	6,370	6,370	-
Delinquent penalties	6,000	6,189	189
Other	-	3,040	3,040
	<u>539,180</u>	<u>600,895</u>	<u>61,715</u>
Total operating revenues			
OPERATING EXPENSES			
Mains	250,830	223,190	27,640
Water pumping	191,530	115,430	76,100
Administration	60,895	55,492	5,403
Depreciation	79,570	73,346	6,224
	<u>582,825</u>	<u>467,458</u>	<u>115,367</u>
Total operating expenses			
OPERATING INCOME (LOSS)	(43,645)	133,437	177,082
NONOPERATING REVENUE			
Interest income	1,000	4,228	3,228
	<u>1,000</u>	<u>4,228</u>	<u>3,228</u>
CHANGES IN NET POSITION	(42,645)	137,665	180,310
NET POSITION - BEGINNING	<u>2,191,858</u>	<u>2,191,858</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ 2,149,213</u>	<u>\$ 2,329,523</u>	<u>\$ 180,310</u>

BUDGETARY COMPARISON SCHEDULE - Capital Project Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
OPERATING REVENUES			
Sale of developed lots	\$ 163,000	\$ 163,460	\$ 460
OPERATING EXPENSES			
Cost of developed lots	166,100	165,336	764
Legal fees	<u>1,000</u>	<u>988</u>	<u>12</u>
Total operating expenses	<u>167,100</u>	<u>166,324</u>	<u>776</u>
OPERATING LOSS	(4,100)	(2,864)	1,236
NONOPERATING REVENUE			
Interest income	<u>-</u>	<u>1,263</u>	<u>1,263</u>
CHANGES IN NET POSITION	(4,100)	(1,601)	2,499
NET POSITION - BEGINNING	<u>331,304</u>	<u>331,304</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ 327,204</u>	<u>\$ 329,703</u>	<u>\$ 2,499</u>

BUDGETARY COMPARISON SCHEDULE - DPW Equipment Fund

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
OPERATING REVENUES			
Equipment rental	\$ 180,000	\$ 216,211	\$ 36,211
Fuel and other charges	<u>20,000</u>	<u>17,663</u>	<u>(2,337)</u>
Total operating revenues	<u>200,000</u>	<u>233,874</u>	<u>33,874</u>
OPERATING EXPENSES			
Equipment pool operations	152,730	123,481	29,249
Depreciation	<u>60,000</u>	<u>53,996</u>	<u>6,004</u>
Total operating expenses	<u>212,730</u>	<u>177,477</u>	<u>35,253</u>
OPERATING INCOME (LOSS)	(12,730)	56,397	69,127
NONOPERATING REVENUE			
Gain on sale of capital assets	12,000	600	(11,400)
Interest income	<u>750</u>	<u>2,299</u>	<u>1,549</u>
Total nonoperating revenues	<u>12,750</u>	<u>2,899</u>	<u>(9,851)</u>
CHANGES IN NET POSITION	20	59,296	59,276
NET POSITION - BEGINNING	<u>716,260</u>	<u>716,260</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ 716,280</u>	<u>\$ 775,556</u>	<u>\$ 59,276</u>

BALANCE SHEET - Downtown Development Authority

June 30, 2018

ASSETS

Cash	\$ 69,689
Investments	42,914
Prepays	<u>3,415</u>
Total assets	<u>\$ 116,018</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 17,460
Accrued payroll liabilities	<u>2,396</u>
Total liabilities	<u>19,856</u>

Fund balance:

Nonspendable - prepaids	3,415
Unassigned	<u>92,747</u>
Total fund balance	<u>96,162</u>

Total liabilities and fund balance	<u>\$ 116,018</u>
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Total fund balance	\$ 96,162
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Amounts reported for the *component unit* in the statement of net position (page 15) are different because:

Capital assets are not financial resources and, therefore, are not reported in the fund.	2,260,487
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Compensated absences not recorded in the fund.	<u>(876)</u>
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Net position of the <i>component unit</i>	<u>\$ 2,355,773</u>
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BUDGETARY COMPARISON SCHEDULE - Downtown Development Authority

Year ended June 30, 2018

	<u>Final budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Tax increment financing	\$ 135,490	\$ 137,026	\$ 1,536
State grant	65,000	122,082	57,082
Interest and rentals	300	876	576
Other	<u>83,660</u>	<u>62,675</u>	<u>(20,985)</u>
Total revenues	<u>284,450</u>	<u>322,659</u>	<u>38,209</u>
EXPENDITURES			
Economic development	268,580	259,794	8,786
Capital outlay	<u>100,000</u>	<u>85,577</u>	<u>14,423</u>
Total expenditures	<u>368,580</u>	<u>345,371</u>	<u>23,209</u>
NET CHANGES IN FUND BALANCES	(84,130)	(22,712)	61,418
FUND BALANCES - BEGINNING	<u>118,874</u>	<u>118,874</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 34,744</u>	<u>\$ 96,162</u>	<u>\$ 61,418</u>

BUDGETARY COMPARISON SCHEDULE - Downtown Development Authority (Continued)

Year ended June 30, 2018

Net change in fund balance (page 58) \$ (22,712)

Amounts reported for *component unit* in the statement of activities (page 16) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense:

Asset acquisitions	85,577
Depreciation expense	(79,980)

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 the fund:

Increase in accrued compensated absences	<u>(641)</u>
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Change in net position of *component unit* \$ (17,756)

SINGLE AUDIT SCHEDULES AND REPORTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2018

Federal grantor/pass-through grantor/ program title	Federal CFDA Number	Pass-Through Grantor's Number	Federal expenditures
United States Environmental Protection Agency Passed through Michigan Department of Environmental Quality Clean Water State Revolving Fund Capitalization Grant for Clean Water State Revolving Fund	66.458	5638-01	\$ <u>864,926</u>

See notes to the Schedule of Expenditures of Federal Awards

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Otsego (the City) under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City has elected not to use the 10 percent *de minimus* cost rate as permitted in Uniform Guidance.

FEDERAL LOANS

The Environmental Protection Agency approved a \$1,325,000 loan to the City to make improvements to the City's wastewater treatment facilities. The loan is reported in the City's Sewer Fund, an enterprise fund, as long-term obligations in the financial statements. The loan balance included in the financial statements, in the amount of \$945,441, includes the federal expenditures reported in the Schedule. The loan balance exceeds the federal expenditures by \$80,515 because the loan includes both federal and state funding.

INDEPENDENT AUDITOR'S 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

City Commission
City of Otsego, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Otsego, Michigan'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 City of Otsego, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Otsego, Michigan'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 were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-1 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Otsego, Michigan'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*.

City of Otsego, Michigan's Response to Findings

The City of Otsego, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Otsego'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 entity'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 "Siegfried Crandall P.C.". The signature is written in a cursive style with a large initial 'S'.

October 25, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Commission
City of Otsego

Report on Compliance for Each Major Federal Program

We have audited the City of Otsego, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2018. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Otsego, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City of Otsego, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Siegfried Crandall P.C.". The signature is written in a cursive style with a large initial 'S'.

October 25, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

A. SUMMARY OF AUDIT RESULTS

1. The auditor’s report expresses unmodified opinions on the financial statements of the City of Otsego.
2. A deficiency in internal control disclosed during the audit of the financial statements is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Otsego, which would be required to be disclosed in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No deficiencies in internal control over the major federal award program were disclosed during the audit of the major federal award program.
5. The auditor’s report on compliance for the major federal award programs for the City of Otsego expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
7. The program tested as a major program follows:

Federal agency	Program Name	CFDA #
Unites States Environmental Protection Agency	Capitalization Grants for Clean Water State Revolving Fund	66.458

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The City of Otsego was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2018-1 *Criteria:* Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP). The auditee’s trial balance should be adjusted prior to the commencement of audit fieldwork for timely and accurate financial reporting.

Condition: The receivables for unbilled accruals in the Sewer and Water funds initially were overstated by approximately \$114,000 and \$80,000, respectively. These adjustments collectively had a quantitatively material effect on the financial statements taken as a whole.

Cause: This condition was caused by an administrative oversight. A manual general journal entry, to reverse the prior year unbilled accrual, was not recorded.

Effect: As a result of this condition, the City’s accounting records were initially misstated by amounts that were material to the Sewer and Water fund opinion units.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

2018-1 (continued)

Auditor's Recommendation: An adjustment to correct this error has already been prepared by management, posted to the general ledger, and is appropriately reflected in the accompanying financial statements. Management already has an appropriate policy for reviewing individual workpapers prepared for the audit. We recommend that management further compare the supporting documentation prepared and compare it to the adjusted trial balance prior to the start of audit fieldwork.

Management Response: Management has implemented a process for the review of significant account balances before the annual audit begins.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None noted

D. SUMMARY OF PRIOR AUDIT FINDINGS

Not applicable - there was no single audit in the prior period