

Otsego County Bus System

Years Ended
September 30,
2017 and 2016

Financial
Statements

OTSEGO COUNTY BUS SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 23, 2018

Members of the County Commissioners
County of Otsego, Michigan
Gaylord, Michigan 49735**Report on the Financial Statements**

We have audited the accompanying financial statements of the *Otsego County Bus System* (the "Bus System"), an enterprise fund of Otsego County, Michigan, (the "County") as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Bus System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bus System, as of September 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements referred to above present only the Otsego County Bus System Enterprise Fund's net position, changes in net position, and cash flows, and do not purport to, and do not, present fairly the financial position of Otsego County, Michigan as of September 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bus System's basic financial statements.

The combining schedules and the Michigan Bureau of Passenger Transportation schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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. The information on pages 30-36, and 39 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 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 aforementioned schedules are fairly stated in all material respects in relation to the financial statements as a whole.

The Nonurban Regular Service Nonfinancial Report presented on pages 37-38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2018, on our consideration of the Bus System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Bus System's internal control over financial reporting and compliance.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) presents a narrative overview and analysis of the financial activities of the Otsego County Bus System (the “Bus System”), an enterprise fund of Otsego County, Michigan (the “County”) as of and for the year ended September 30, 2017, and 2016. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements as a whole.

Financial Highlights

The Bus System experienced an approximate \$185,000 loss in fiscal 2017, down approximately \$184,000 from the fiscal 2016 loss of approximately \$369,000. The most significant factor was the decrease in salaries due to a decrease in the pension liability adjustment of approximately \$45,000 from the prior year and a decrease in regular and overtime wages of approximately \$43,000 compared to the prior year.

As a result, the Bus System's net position declined from \$242,206 as of September 30, 2016 to \$57,380 at September 30, 2017. The Bus System has filed a five year deficit elimination plan in an effort to avoid future declines.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bus System's basic financial statements, which comprise two components: 1) government-wide financial statements (in this case, the same as the fund financial statements) and 2) notes to the financial statements.

Financial Statements. The *financial statements* are designed to provide readers with a broad overview of the Bus System's finances, in a manner similar to a private sector business.

The *statements of net position* present information on all of the Bus System's assets, deferred outflows and inflows of resources, and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Bus System is improving or deteriorating.

The *statements of activities* present information showing how the Bus System's net position changed during the fiscal years 2017 and 2016. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the financial statements report functions of the Bus System that are principally supported by charges for services, taxes levied for transit and federal and state grants.

The financial statements also include notes that explain some of the more significant information contained within the statements and provide more detailed data. The notes are followed by a series of required supplemental information that further explains and supports the financial statements. The other supplementary information provides data related to combining financial statements and the basic transportation services provided.

Proprietary Fund Statement

The Bus System is accounted for as a proprietary fund which is used to account all of its transportation operations.

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

Net Position

The Bus System's total net position at September 30, 2017 was \$57,380, a decrease of \$184,826 or 76.3% from September 30, 2016. Total assets decreased \$27,214, or 4.0%, and total liabilities decreased \$222,112, or 22.5%. The following table shows, in a condensed format, the statements of net position:

	Net Position		
	As of September 30,		
	2017	2016	2015
Assets			
Current and other assets	\$ 222,590	\$ 90,986	\$ 118,069
Capital assets, net	434,530	593,348	750,527
Total assets	<u>657,120</u>	<u>684,334</u>	<u>868,596</u>
Deferred outflows of resources	<u>362,472</u>	<u>544,221</u>	<u>83,924</u>
Liabilities			
Current liabilities	186,402	137,354	105,850
Net pension liability	577,835	848,995	235,315
Total liabilities	<u>764,237</u>	<u>986,349</u>	<u>341,165</u>
Deferred inflows of resources	<u>197,975</u>	-	-
Net position			
Net investment in capital assets	434,530	593,348	750,527
Unrestricted deficit	<u>(377,150)</u>	<u>(351,142)</u>	<u>(139,172)</u>
Total net position	<u>\$ 57,380</u>	<u>\$ 242,206</u>	<u>\$ 611,355</u>

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

The following condensed financial information was derived from the statements of revenues, expenses and changes in fund net position and reflects how the bus system's net position changed during the fiscal year:

	Changes in Net Position		
	For the Year Ended September 30,		
	2017	2016	2015
Operating revenues			
Charges for services	\$ 343,779	\$ 341,872	\$ 336,031
Operating expenses			
Salaries and wages	1,364,378	1,450,700	1,265,053
Depreciation	158,818	165,226	203,421
Other	343,841	338,841	381,931
Total operating expenses	1,867,037	1,954,767	1,850,405
Operating loss	(1,523,258)	(1,612,895)	(1,514,374)
Nonoperating revenues			
Taxes levied for transit	293,501	284,610	285,647
Government operating grants	985,215	937,182	866,496
Other	39,639	8,954	47,442
Total nonoperating revenues	1,318,355	1,230,746	1,199,585
Change in net position before transfers	(204,903)	(382,149)	(314,789)
Transfers	20,077	13,000	-
Change in net position	(184,826)	(369,149)	(314,789)
Net position			
Beginning of year	242,206	611,355	1,058,531
Restatement	-	-	(132,387)
End of year	\$ 57,380	\$ 242,206	\$ 611,355

The Bus System revenues and transfers increased approximately \$97,000 from \$1,585,618 in fiscal 2016 to \$1,682,211 in fiscal 2017, attributable mainly to an approximate \$48,000 increase in government operating grants, \$14,000 for maintenance sales to the County's motor pool, a \$9,000 increase in taxes levied for transit, and a workers compensation insurance refund in the amount of approximately \$12,000. The expenses decreased approximately \$88,000 from \$1,954,767 in 2016 to \$1,867,037 in fiscal 2017. This change consisted mainly of a decrease in salaries due to a decrease in the pension liability adjustment of approximately \$45,000 from the prior year and a decrease in regular and overtime wages of approximately \$43,000 compared to the prior year.

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

Capital Assets

The Bus System defines a capital asset as an asset with an original cost that exceeds \$5,000 and an estimated useful life greater than two years. Assets are depreciated using the straight-line method over the course of their estimated useful lives.

	Capital Assets (Net of Depreciation)	
	2017	2016
Land	\$ 99,998	\$ 99,998
Buildings	223,788	261,789
Vehicles	104,307	224,319
Equipment	6,437	7,242
Total capital assets, net	<u>\$ 434,530</u>	<u>\$ 593,348</u>

Additional information regarding capital assets can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The 2018 budget was projected comparable to the 2017 budget with an increase in payroll attributable to a 1-2% cost-of-living increase. The Bus System revenue levels will continue to be mainly dependent upon Federal and State grants. The property tax allocation and local charges for services are both anticipated to remain stable. Expenses are anticipated to increase attributable to cost of living salary increases and increases in other payroll related benefits. The Bus System will continue to operate as it has with a slow growth operational mindset to ensure the economic problems within our state and federal funding do not have an impact on the services we are currently providing.

Contacting the Bus System's Financial Management

This financial report is designed to provide our customers, taxpayers and other interested parties with a general overview of the finances of the Otsego County Bus System and to demonstrate the Bus System's accountability for the money it receives. If you have questions about this report or need additional information, contact Tim Cherwinski, Transportation Manager, Otsego County Bus System, 1254 Energy Drive, Gaylord, Michigan 49735.

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BASIC FINANCIAL STATEMENTS

OTSEGO COUNTY BUS SYSTEM

Statements of Net Position

	September 30,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 116,267	\$ 30,102
Accounts receivable	23,241	25,719
Taxes receivable	1,364	-
Due from federal government	81,718	35,165
Total current assets	<u>222,590</u>	<u>90,986</u>
Noncurrent assets:		
Capital assets not being depreciated	99,998	99,998
Capital assets being depreciated, net	334,532	493,350
Total noncurrent assets	<u>434,530</u>	<u>593,348</u>
Total assets	<u>657,120</u>	<u>684,334</u>
Deferred outflows of resources		
Deferred pension amounts	<u>362,472</u>	<u>544,221</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	79,155	80,579
Due to state government	87,247	26,775
Due to other funds	20,000	30,000
Total current liabilities	<u>186,402</u>	<u>137,354</u>
Noncurrent liabilities:		
Net pension liability	<u>577,835</u>	<u>848,995</u>
Total liabilities	<u>764,237</u>	<u>986,349</u>
Deferred inflows of resources		
Deferred pension amounts	<u>197,975</u>	<u>-</u>
Net position		
Net investment in capital assets	434,530	593,348
Unrestricted deficit	<u>(377,150)</u>	<u>(351,142)</u>
Total net position	<u>\$ 57,380</u>	<u>\$ 242,206</u>

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

OTSEGO COUNTY BUS SYSTEM

Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Year Ended September 30,	
	2017	2016
Operating revenues		
Fares - demand responses	\$ 89,158	\$ 104,064
Fares - contractual	201,419	204,445
Meals on Wheels	53,202	33,363
Total operating revenues	<u>343,779</u>	<u>341,872</u>
Operating expenses		
Salaries and fringes	1,364,378	1,450,700
Depreciation	158,818	165,226
Other	343,841	338,841
Total operating expenses	<u>1,867,037</u>	<u>1,954,767</u>
Operating loss	<u>(1,523,258)</u>	<u>(1,612,895)</u>
Nonoperating revenues		
Taxes levied for transit	293,501	284,610
Government operating grants:		
Federal (US DOT Operating Grant (Section 5311))	361,971	318,587
State (Local Bus Operating Assistance (Act 51))	623,244	618,595
Motor pool	20,635	6,942
Nontransportation revenue	2,250	1,992
Other local contracts and reimbursements	16,754	20
Total nonoperating revenues	<u>1,318,355</u>	<u>1,230,746</u>
Change in net position before transfer in	(204,903)	(382,149)
Transfers in	<u>20,077</u>	<u>13,000</u>
Change in net position	(184,826)	(369,149)
Net position, beginning of year	<u>242,206</u>	<u>611,355</u>
Net position, end of year	<u>\$ 57,380</u>	<u>\$ 242,206</u>

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

OTSEGO COUNTY BUS SYSTEM

Statements of Cash Flows

	For the Year Ended September 30,	
	2017	2016
Cash flows from operating activities		
Cash received from customers	\$ 346,257	\$ 334,899
Cash paid to suppliers	(340,568)	(342,923)
Cash paid to or on behalf of employees	(1,261,875)	(1,293,506)
Net cash used in operating activities	<u>(1,256,186)</u>	<u>(1,301,530)</u>
Cash flows from noncapital financing activities		
Taxes levied for transit	293,501	284,610
Federal operating grants	315,418	298,243
State operating grants	683,716	706,525
Motor pool receipts	20,635	6,942
Transfer in	20,077	13,000
Local contracts and reimbursement receipts	16,754	20
Local nontransportation receipts	2,250	1,992
Repayment of cash advance from other funds	(10,000)	(145,000)
Cash advance from other funds	-	150,000
Net cash provided by noncapital financing activities	<u>1,342,351</u>	<u>1,316,332</u>
Cash flows used in capital financing activities		
Purchase of capital assets	-	(8,047)
Net change in cash and cash equivalents	86,165	6,755
Cash and cash equivalents, beginning of year	<u>30,102</u>	<u>23,347</u>
Cash and cash equivalents, end of year	<u>\$ 116,267</u>	<u>\$ 30,102</u>

continued...

OTSEGO COUNTY BUS SYSTEM

Statements of Cash Flows

	For the Year Ended September 30,	
	2017	2016
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,523,258)	\$ (1,612,895)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	158,818	165,226
Change in operating assets and liabilities that provided (used) cash:		
Accounts receivable	2,478	(6,973)
Accounts payable and accrued liabilities	(2,788)	(271)
Change in net pension liability and deferred amounts	108,564	153,383
Net cash used in operating activities	<u>\$ (1,256,186)</u>	<u>\$ (1,301,530)</u>

concluded

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

NOTES TO FINANCIAL STATEMENTS

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Otsego County Bus System (the "Bus System") is an enterprise fund of the County of Otsego, Michigan, (the "County"). The accompanying financial statements present only the Bus System's net position, changes in fund net position and cash flows. They do not purport to, and do not present fairly, the net position of the County and the changes in its financial position or, where applicable, the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

The purpose of the Bus System is to acquire, operate, and manage a public transportation system within the boundaries of the County. The Bus System is not legally separate but is administered by a three member standing committee of the County Board of Commissioners. The Bus System Committee may not issue debt and the tax levy is subject to County Board of Commissioner's approval. The Bus System taxes are levied under the taxing authority of the County, as approved by the County electors and is included as part of the County's total tax levy as well as reported in the Bus System Fund as taxes levied for transit.

The criteria established by the Governmental Accounting Standards Board for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the data were not included. Based on the above criteria, the basic financial statements of the Otsego County Bus System are presented as an enterprise fund of the County.

The Bus System accounts for funds received from of the Michigan Transportation Fund and the Federal Transportation Fund distributed to the County which are earmarked by law for transportation purposes. The County Board of Commissioners is responsible for the administration of the Bus System.

The financial activities of the Bus System are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Concentration Risks

A portion of the Bus System's operations are dependent upon the Michigan Transportation Fund and the Federal transportation fund grants. The loss of such funding may have a materially adverse effect on the Bus System's operating results.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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 revenues of the enterprise fund are charges to customers for providing bus services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the bus services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

Nonexchange transactions, in which the Bus System gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

When both restricted and unrestricted resources are available for use, it is the Bus System's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Deposits and Investments

The Bus System's cash and cash equivalents consist of cash on hand and demand deposits.

State statutes authorize the Bus System to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of September 30, 2017 and 2016, no receivable balances were expected to be uncollectible.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Amounts due from the state and federal government include amounts due from grantors for the Local Bus Operating Assistance Program.

Capital Assets

Capital assets, which include land, buildings, vehicles and equipment, are reported in the proprietary fund financial statements. Capital assets are defined by the Bus System as assets with an initial, individual cost of more 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 estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

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

	Years
Buildings	20
Equipment	5-12
Vehicles	3-7

Deferred Outflows of Resources

In addition to assets, the statement of net financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Bus System reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided within its pension plan. More detailed information can be found in Note 5.

Payables

Activity between the County and the Bus System that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivables/payables (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans).

Amounts due to the state government include amounts due to grantors for the Local Bus Operating Assistance Program.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Bus System reports deferred outflows of resources for pension related amounts.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Compensated Absences

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is accrued over the course of the year. Employees can carry over a maximum base vacation leave (calculated based on years of service) to the next year. Upon termination, an employee receives payment for the balance of any unused vacation leave. Personal leave (which includes leave due to illness) is earned at the beginning of the calendar year at a rate of between 28 and 56 hours based on the employment status of the employee. Effective January 1 or each subsequent year, any unused personal leave days are paid. No carryover of personal leave is permitted. Upon termination during a fiscal year, any unused personal leave earned during that year would also be paid out. Accumulated vacation and sick leave at each year end will be paid from current financial resources and is therefore recorded as a current liability and is included within accounts payable and accrued liabilities on the statement of net position.

Pensions

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

Taxes Levied For Transit

Taxes levied for transit attach as an enforceable lien on property as of the date they are levied. The taxes are levied as of December 1 and become delinquent after February 14. In March, taxes on real property still delinquent are purchased by the County's Tax Revolving Funds. Revenue from taxes levied for transit are recognized by the Bus System in the fiscal year for which the taxes are levied and deemed collectible.

The 2016 taxable valuation of Otsego County property amounted to \$1,152,385,044 on which ad valorem taxes of .25 mills for the Bus System were levied in the amount of approximately \$288,000.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosures of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most sensitive accounting estimates affecting the financial statements include the remaining useful lives of capital assets, the sick and vacation accrual and the accrued pension liability.

Cost Allocation

The Bus System has cost allocation plans for all allocated expenses. All allocation plans are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation. These expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program. More detailed information can be found in Note 8.

Fiscal Year

The Bus System operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the December 31 fiscal year of the County.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

2. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit balances as of September 30, 2017 and 2016:

	2017	2016
Statement of net position:		
Cash and cash equivalents	<u>\$ 116,267</u>	<u>\$ 30,102</u>
Deposits:		
Pooled cash with Otsego County	\$ 116,067	\$ 29,902
Cash on hand	<u>200</u>	<u>200</u>
Total	<u>\$ 116,267</u>	<u>\$ 30,102</u>

Deposit and Investment Risk

Federal Deposit Insurance Corporation. Deposits of the Bus System held by Otsego County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Bus System.

3. DUE FROM (TO) OTHER GOVERNMENTAL UNITS

Due from the Federal Government

The Bus System receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government as of September 30 is as follows:

	Non-Urban 2017	Non-Urban 2016
Net eligible expenses	\$ 1,593,692	\$ 1,722,091
Funding rate	18.50%	18.50%
Section 5311 revenue	<u>294,833</u>	<u>318,587</u>
Funding received	<u>(259,359)</u>	<u>(217,864)</u>
Due from federal government - current year	35,474	100,723
Due from (to) federal government - prior years	<u>46,244</u>	<u>(65,558)</u>
Total due from federal government	<u>\$ 81,718</u>	<u>\$ 35,165</u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

As of September 30, 2017, amounts due from federal government are as follows:

Year Ended	Amount
2015	\$ 14,670
2016	15,738
2017	<u>51,310</u>
Total	<u>\$ 81,718</u>

Due to State Government

The Bus System receives funding from the State of Michigan for the Local Bus Operating Assistance Program. The computation of the amount due (to) from the State of Michigan is as follows:

	Non-Urban 2017	Non-Urban 2016
Net eligible expenses	\$ 1,601,942	\$ 1,730,044
Funding rate	38.9955%	35.7560%
Section 5311 revenue	<u>624,685</u>	<u>618,595</u>
Funding received	<u>(683,716)</u>	<u>(627,875)</u>
Due (to) State of Michigan - current year	(59,031)	(9,280)
Due (to) State of Michigan - prior years	<u>(28,216)</u>	<u>(17,495)</u>
Total due to state government	<u>\$ (87,247)</u>	<u>\$ (26,775)</u>

As of September 30, 2017, amounts due from (to) State of Michigan are as follows:

Year Ended	Amount
2015	\$ 22,427
2016	(50,643)
2017	<u>(59,031)</u>
Total	<u>\$ (87,247)</u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

4. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Adjustments/ Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
Capital assets being depreciated:				
Buildings	760,033	-	-	760,033
Vehicles	974,632	-	-	974,632
Equipment	8,047	-	-	8,047
Total capital assets being depreciated	1,742,712	-	-	1,742,712
Less accumulated depreciation for:				
Buildings	(498,244)	(38,001)	-	(536,245)
Vehicles	(750,313)	(120,012)	-	(870,325)
Equipment	(805)	(805)	-	(1,610)
Total accumulated depreciation	(1,249,362)	(158,818)	-	(1,408,180)
Total capital assets being depreciated, net	493,350	(158,818)	-	334,532
Total capital assets, net	\$ 593,348	\$ (158,818)	\$ -	\$ 434,530

If capital assets purchased with federal and state grants are withdrawn from mass transportation service, the Bus System must remit to the governments its proportionate share of the fair market value.

	Purchased with Bus System Funds	Purchased with Federal and State Grants	Total
Land	\$ 73,337	\$ 26,661	\$ 99,998
Buildings	500,088	259,945	760,033
Vehicles	-	974,632	974,632
Equipment	8,047	-	8,047
Total capital assets being depreciated	508,135	1,234,577	1,742,712
Less total accumulated depreciation	(382,345)	(1,025,835)	(1,408,180)
Total capital assets being depreciated, net	125,790	208,742	334,532
Total capital assets, net	\$ 199,127	\$ 235,403	\$ 434,530

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Capital assets activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Additions	Adjustments/ Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
Capital assets being depreciated:				
Buildings	760,033	-	-	760,033
Vehicles	974,632	-	-	974,632
Equipment	-	8,047	-	8,047
Total capital assets being depreciated	1,734,665	8,047	-	1,742,712
Less accumulated depreciation for:				
Buildings	(460,243)	(38,001)	-	(498,244)
Vehicles	(623,893)	(126,420)	-	(750,313)
Equipment	-	(805)	-	(805)
Total accumulated depreciation	(1,084,136)	(165,226)	-	(1,249,362)
Total capital assets being depreciated, net	650,529	(157,179)	-	493,350
Total capital assets, net	\$ 750,527	\$ (157,179)	\$ -	\$ 593,348

	Purchased with Bus System Funds	Purchased with Capital and State Grants	Total
Land	\$ 73,337	\$ 26,661	\$ 99,998
Buildings	500,088	259,945	760,033
Vehicles	-	974,632	974,632
Equipment	8,047	-	8,047
Total capital assets being depreciated	508,135	1,234,577	1,742,712
Less total accumulated depreciation	(353,753)	(895,609)	(1,249,362)
Total capital assets being depreciated, net	154,382	338,968	493,350
Total capital assets, net	\$ 227,719	\$ 365,629	\$ 593,348

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

5. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

Plan Description. The Otsego County Bus System (the "Bus System"), through the County of Otsego, Michigan, participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 or 5 year period) and multipliers ranging from 1.25% to 2.25%. Participants are considered to be fully vested in the plan after 6 or 10 years, depending on division/bargaining unit. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, or age 55 with 15 years of service, depending on the division/bargaining unit. The employer may establish contribution rates to be paid by its covered employees. Currently, employees are not required to contribute to the plan.

Employees Covered by Benefit Terms. At December 31, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>21</u>
 Total membership	 <u><u>36</u></u>

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

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
General Local 214 Bus	Defined Benefit	Closed	\$ 4,547	0%
Teamsters Bus	Hybrid Plan	Open	6.19%	0%

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

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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

Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.5%.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.51%
Diversifying strategies	<u>10.00%</u>	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2016 was 8.00% (down from 8.25% in 2015). The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2015	\$ 3,441,610	\$ 2,592,615	\$ 848,995
Changes for the year:			
Service cost	56,836	-	56,836
Interest	270,324	-	270,324
Differences between expected and actual experience*	(966,647)	(702,680)	(263,967)
Changes in assumptions	(3,562)	-	(3,562)
Employer contributions	-	65,991	(65,991)
Net investment income	-	270,030	(270,030)
Benefit payments, including refunds of employee contributions	(181,958)	(181,958)	-
Administrative expense	-	(5,230)	5,230
Net changes	<u>(825,007)</u>	<u>(553,847)</u>	<u>(271,160)</u>
Balances at December 31, 2016	<u>\$ 2,616,603</u>	<u>\$ 2,038,768</u>	<u>\$ 577,835</u>

**Differences between expected and actual experience.* The difference between expected and actual experience in the Plan's total pension liability and fiduciary net position is due to a transfer of Plan employees to other divisions within the County Plan.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Bus System, calculated using the discount rate of 8.00%, as well as what the Bus System's net pension liability would be if it were calculated using a discount rate that is 1.00% lower (7.00%) or 1.00% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Bus System's net pension liability	\$ 859,030	\$ 577,835	\$ 336,141

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

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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

For the year ended September 30, 2017, the Bus System recognized pension expense of \$721,419. The Bus System reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 80,993	\$ 197,975	\$ (116,982)
Changes in assumptions	90,372	-	90,372
Net difference between projected and actual earnings on pension plan investments	122,195	-	122,195
	<u>293,560</u>	<u>197,975</u>	<u>95,585</u>
Contributions subsequent to the measurement date	68,912	-	68,912
Total	<u>\$ 362,472</u>	<u>\$ 197,975</u>	<u>\$ 164,497</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended	Amount
2018	\$ 68,143
2019	68,141
2020	(27,207)
2021	<u>(13,492)</u>
Total	<u>\$ 95,585</u>

Payable to the Pension Plan. At September 30, 2017, the Bus System reported a payable of \$6,017 for the outstanding amount of contributions to the pension plan required for the Bus System's year ended September 30, 2017.

6. RISK MANAGEMENT

The Bus System is included with the County provisions for risk management. The following County provisions apply to the County's fiscal year ended December 31, 2016.

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. The following is a summary of these self-insurance programs and risk management pool participation.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage, and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

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

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2016, the balance of the County's member retention was \$322,492.

Changes in the balances of claims liabilities are as follows:

	Fiscal Year Ended December	
	2016	2015
Estimated liability, beginning of year	\$ -	\$ 51,456
Receipts	74,430	71,997
Estimated claims incurred	(55,111)	(96,345)
Claim payments	(1,888)	(27,108)
	<u>17,431</u>	<u>-</u>
Estimated liability, end of year	\$ 17,431	\$ -

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

Workers' Compensation

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

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

At December 31, 2016 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

7. CONTINGENT LIABILITIES

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

8. COST ALLOCATION PLAN

The cost allocation plans were adhered to in preparation of the financial statements. The Bus System has four cost allocation plans where the methodology has been approved by the State's Bureau of Passenger Transportation (BPT). Those cost allocations are for 1998 Maintenance Services, 2003 Rent Cost Allocation, 2004 Administration Service Otsego County, and 2010 Meals on Wheels. As of September 30, 2017, the Bus System did not share space with any other organization.

9. ELIGIBLE AND INELIGIBLE COSTS

The State's Bureau of Passenger Transportation (BPT) requires the Bus System to include supplemental schedules to the financial statements. These supplemental schedules are included on pages 33-39 of this report. These schedules include eligible expenses to be reimbursed with state funds that have been appropriated for mass transit operating assistance under Act 51. The schedules also detail ineligible expenses that cannot be reimbursed. The supplemental schedules detail any Section 5311 (capital funding) and any other grant funding used to pay operating expenses and either subtracts them out as ineligible or does not include them in the total expenses to be reimbursed.

Eligible depreciation includes assets purchased with local funds and depreciable lives have been approved by the Office of Passenger Transportation (the "OPT"), prior to 2007. Since 2007, no assets have been approved by the OPT. Total depreciation expense as of September 30, 2017, was \$158,818. Eligible depreciation for 2017 amounted to \$27,786 and the remaining \$131,032 was ineligible.

No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses.

Expenses associated with 40710 Nontransportation Revenue of \$9,207 are subtracted out as ineligible as it relates to motor pool expenses incurred. In addition, there were no expenses associated with 40615 Auxiliary Transportation Revenue to be subtracted out as ineligible since no new advertising materials on Bus System vehicles and property were put into place during the fiscal year. The advertising revenue of \$2,250 includes receipt of revenues from continuing advertising contracts.

Lobbying expenses of \$160 associated with MASSTrans membership for fiscal 2017 are deducted under 55009.

Refund of workers compensation insurance totaled \$16,132 during fiscal year 2017 and is deducted under 54000.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Pension costs incurred for the MERS defined benefit pension plan were calculated pursuant to the MERS GASB 68 Implementation Guide (the "Guide"). The total pension expense recognized as calculated in Step 6 of the Guide is \$194,409. The entire amount of \$194,409 was expensed on the books and is reported in 50220 Defined Benefit Pension. The Bus System paid (e.g., an out of pocket payment) \$85,845. Therefore, \$108,564 (pension expense of \$194,409 less the amount paid of \$85,845 is eliminated under 58020 Ineligible Defined Benefit Pension).

10. NONFINANCIAL DATA

The methodology used for compiling mileage on OAR Schedule 3N (Nonurban Regular Service Financial Report) appears to be an adequate and reliable method for recording vehicle mileage.

11. SUBSEQUENT EVENT

Subsequent to September 30, 2017, the Bus System has purchased four new busses that are expected to be received and placed in operation in the summer of 2018. The estimated total cost of the busses is \$400,000 and will be purchased with State and Federal funds and insurance proceeds received in fiscal year 2015.



REQUIRED SUPPLEMENTARY INFORMATION

OTSEGO COUNTY BUS SYSTEM

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Fiscal Year Ended September 30,		
	2017	2016	2015
Total pension liability			
Service cost	\$ 56,836	\$ 57,030	\$ 52,717
Interest	270,324	240,059	227,872
Differences between expected and actual experience	(966,647)	161,987	-
Changes in assumptions	(3,562)	180,746	-
Benefit payments, including refunds of employee contributions	(181,958)	(159,593)	(110,465)
Other changes	-	299	-
Net change in total pension liability	(825,007)	480,528	170,124
Total pension liability, beginning of year	3,441,610	2,961,082	2,790,958
Total pension liability, end of year	2,616,603	3,441,610	2,961,082
Plan fiduciary net position			
Employer contributions	65,991	72,717	64,357
Net investment income (loss)	270,030	(40,348)	165,080
Benefit payments, including refunds of employee contributions	(181,958)	(159,593)	(110,465)
Administrative expense	(5,230)	(5,928)	(6,065)
Differences between expected and actual experience	(702,680)	-	-
Net change in plan fiduciary net position	(553,847)	(133,152)	112,907
Plan fiduciary net position, beginning of year	2,592,615	2,725,767	2,612,860
Plan fiduciary net position, end of year	2,038,768	2,592,615	2,725,767
Bus System's net pension liability	\$ 577,835	\$ 848,995	\$ 235,315
Plan fiduciary net position as a percentage of total pension liability	77.9%	75.3%	92.1%
Covered payroll	\$ 694,798	\$ 710,949	\$ 625,094
Bus System's net pension liability as a percentage of covered payroll	83.2%	119.4%	37.6%

Notes:

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

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

OTSEGO COUNTY BUS SYSTEM

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

Schedule of the Net Pension Liability

Fiscal Year Ended September 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2017	\$ 2,616,603	\$ 2,038,768	\$ 577,835	77.9%	\$ 694,798	83.2%
2016	3,441,610	2,592,615	848,995	75.3%	710,949	119.4%
2015	2,961,082	2,725,767	235,315	92.1%	625,094	37.6%

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

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

OTSEGO COUNTY BUS SYSTEM

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

Schedule of Contributions

Fiscal Year Ending September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2017	\$ 73,553	\$ 85,845	\$ (12,292)	\$ 678,651	12.6%
2016	68,286	68,286	-	711,689	9.6%
2015	60,498	60,498	-	626,482	9.7%

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

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 21 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	24 years
Asset valuation method	Open; 10 year smoothed market
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2.0% and 3.0% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.0%. Net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
Mortality	1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

SUPPLEMENTARY INFORMATION

OTSEGO COUNTY BUS SYSTEM

Combining Schedule By Operation

September 30, 2017

	Bus System	Meals on Wheels	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 95,167	\$ 21,100	\$ 116,267
Accounts receivable	18,807	4,434	23,241
Taxes receivable	1,364	-	1,364
Due from federal government	81,718	-	81,718
Total current assets	<u>197,056</u>	<u>25,534</u>	<u>222,590</u>
Noncurrent assets:			
Capital assets not being depreciated	99,998	-	99,998
Capital assets being depreciated, net	334,532	-	334,532
Total noncurrent assets	<u>434,530</u>	<u>-</u>	<u>434,530</u>
Total assets	<u>631,586</u>	<u>25,534</u>	<u>657,120</u>
Deferred outflows of resources			
Deferred pension amounts	<u>362,472</u>	<u>-</u>	<u>362,472</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	78,103	1,052	79,155
Due to state government	87,247	-	87,247
Due to other funds	20,000	-	20,000
Total current liabilities	<u>185,350</u>	<u>1,052</u>	<u>186,402</u>
Noncurrent liability:			
Net pension liability	<u>577,835</u>	<u>-</u>	<u>577,835</u>
Total liabilities	<u>763,185</u>	<u>1,052</u>	<u>764,237</u>
Deferred inflows of resources			
Deferred pension amounts	<u>197,975</u>	<u>-</u>	<u>197,975</u>
Net position			
Net investment in capital assets	434,530	-	434,530
Unrestricted (deficit)	<u>(401,632)</u>	<u>24,482</u>	<u>(377,150)</u>
Total net position	<u>\$ 32,898</u>	<u>\$ 24,482</u>	<u>\$ 57,380</u>

OTSEGO COUNTY BUS SYSTEM

Combining Schedule of Revenues, Expenses and Changes By Operation

For the Year Ended September 30, 2017

	Bus System	Meals on Wheels	Totals
Operating revenues			
Fares - demand responses	\$ 89,158	\$ -	\$ 89,158
Fares - contractual	201,419	-	201,419
Meals on Wheels	-	53,202	53,202
Total operating revenues	290,577	53,202	343,779
Operating expenses			
Salaries and fringes	1,336,559	27,819	1,364,378
Depreciation	158,818	-	158,818
Other	342,940	901	343,841
Total operating expenses	1,838,317	28,720	1,867,037
Operating (loss) income	(1,547,740)	24,482	(1,523,258)
Nonoperating revenues			
Taxes levied for transit	293,501	-	293,501
Government operating grants:			
Federal (US DOT Operating Grant (Section 5311))	361,971	-	361,971
State (Local Bus Operating Assistance (Act 51))	623,244	-	623,244
Motor pool	20,635	-	20,635
Nontransportation revenue	2,250	-	2,250
Other local contracts and reimbursements	16,754	-	16,754
Total nonoperating revenues	1,318,355	-	1,318,355
Change in net position before transfer in	(229,385)	24,482	(204,903)
Transfers in	20,077	-	20,077
Change in net position	(209,308)	24,482	(184,826)
Net position, beginning of year	242,206	-	242,206
Net position, end of year	\$ 32,898	\$ 24,482	\$ 57,380

OTSEGO COUNTY BUS SYSTEM

Combining Schedule of Cash Flows For the Year Ended September 30, 2017

	Bus System	Meals on Wheels	Totals
Cash flows from operating activities			
Cash received from customers	\$ 297,489	\$ 48,768	\$ 346,257
Cash payments to suppliers	(339,667)	(901)	(340,568)
Cash payments to or on behalf of employees	(1,235,108)	(26,767)	(1,261,875)
Net cash (used in) provided by operating activities	(1,277,286)	21,100	(1,256,186)
Cash flows from noncapital financing activities			
Taxes levied for transit	293,501	-	293,501
Federal operating grants	315,418	-	315,418
State operating grants	683,716	-	683,716
Repayment of cash advance from other funds	(10,000)	-	(10,000)
Local nontransportation receipts	2,250	-	2,250
Motor pool receipts	20,635	-	20,635
Transfers in	20,077	-	20,077
Local contracts and reimbursement receipts	16,754	-	16,754
Net cash provided by noncapital financing activities	1,342,351	-	1,342,351
Net change in cash and cash equivalents	65,065	21,100	86,165
Cash and cash equivalents, beginning of year	30,102	-	30,102
Cash and cash equivalents, end of year	\$ 95,167	\$ 21,100	\$ 116,267
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities			
Operating (loss) income	\$ (1,547,740)	\$ 24,482	\$ (1,523,258)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:			
Depreciation expense	158,818	-	158,818
Changes in operating assets and liabilities that provided (used) cash:			
Accounts receivable	6,912	(4,434)	2,478
Accounts payable and accrued liabilities	(3,840)	1,052	(2,788)
Net pension liability and deferred pension amounts	108,564	-	108,564
Net cash (used in) provided by operating activities	\$ (1,277,286)	\$ 21,100	\$ (1,256,186)

OTSEGO COUNTY BUS SYSTEM

Schedules of Local Revenues

		Year Ended September 30, 2017	Year Ended September 30, 2016
40100	Fares - demand responses	\$ 89,158	\$ 104,064
40200/40950	Fares - contractual	201,419	204,445
40400	Meals on Wheels	53,202	33,363
40615	Nontransportation revenue	2,250	1,992
40699	Other auxiliary revenues	622	-
40710	Sale of maintenance services	20,635	6,942
40800	Taxes levied for transit	293,501	284,610
40999	Other local contracts and reimbursements	16,132	20
	Total	\$ 676,919	\$ 635,436

OTSEGO COUNTY BUS SYSTEM

Schedules of Expenditures of Federal and State Awards

	Year Ended September 30, 2017	Year Ended September 30, 2016
State of Michigan operating grants:		
Michigan Department of Transportation (MDOT)		
Operating grant (Act 51) 1994 (urban)	\$ 623,244	\$ 618,595
 Federal operating grants:		
U.S. Department of Transportation		
Operating grant - Section 5311 Passed through MDOT	<u>361,971</u>	<u>318,587</u>
 Total government operating grants	<u>\$ 985,215</u>	<u>\$ 937,182</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Revenue Report

For the Year Ended September 30, 2017

Code	Description	Amount
401:	Farebox revenue	
40100	Passenger fares	\$ 89,158
404:	Package and charter revenue	
40400	Package delivery/meal delivery programs	53,202
406:	Auxiliary transportation revenues	
40615	Nontransportation revenue - Advertising	2,250
40699	Other auxiliary revenues (\$28 donation; \$594 sale of scrap)	622
407:	NonTransportation revenues	
40710	Sales of maintenance services	20,635
408:	Local revenue	
40800	Taxes levied directly for/by transit agency	293,501
409:	Local revenue	
40950	Local service contract/local source (\$201,419 contractual fares; \$20,077 transfer)	221,496
411:	State formula and contracts	
41101	State operating assistance	623,244
413:	Federal contracts	
41301	Federal Section 5311 (operating funds only)	361,971
440:	Other revenue	
44000	Refunds and credits	16,132
Total revenue		<u>\$ 1,682,211</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Expense Report For the Year Ended September 30, 2017

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501:	Labor				
50101	Operators salaries & wages	\$ 484,324	\$ 350	\$ 1,045	\$ 485,719
50102	Other salaries & wages	-	113,734	90,536	204,270
50103	Dispatchers' salaries & wages	134,089	-	-	134,089
502:	Fringe benefits				
50200	Other fringe benefits	223,467	63,916	38,104	325,487
50210	Defined contribution pension	1,617	342	569	2,528
50220	Defined benefit pension	135,787	28,689	47,809	212,285
503:	Services				
50302	Advertising fees	-	-	2,687	2,687
50305	Audit cost	8,250	-	-	8,250
50399	Other services	1,673	3,068	71,815	76,556
504:	Materials and supplies				
50401	Fuel & lubricants	88,901	-	-	88,901
50402	Tires and tubes	11,149	-	-	11,149
50499	Other materials and supplies	84,855	6,352	8,990	100,197
505:	Utilities				
50500	Utilities	-	-	26,964	26,964
506:	Insurance				
50603	Other insurance	25,731	-	-	25,731
509:	Miscellaneous expenses				
50902	Travel, meetings & training	365	-	-	365
50999	Other misc expenses	579	-	2,462	3,041
513:	Depreciation				
51300	Depreciation	158,818	-	-	158,818
	Total operating expenses				<u>1,867,037</u>
540-580:	Ineligible expenses				
54000	Ineligible refunds and credits (Workers Comp)	-	-	16,132	16,132
55007	Ineligible depreciation	131,032	-	-	131,032
55009	Lobbying expenses	160	-	-	160
56001	Ineligible expenses associated with sale of maintenance service	9,207	-	-	9,207
58020	Ineligible defined benefit pension	69,442	14,672	24,450	108,564
	Total ineligible expenses				<u>265,095</u>
	Total eligible expenses				<u>\$ 1,601,942</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Nonfinancial Report (Unaudited)

For the Year Ended September 30, 2017

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle hours	25,108	2,687	8	27,803
611	Vehicle miles	345,377	6,036	23	351,436
615	Passengers - regular	17,286	806	187	18,279
616	Passengers - elderly	7,389	224	-	7,613
617	Passengers - persons with disabilities	43,274	323	-	43,597
618	Passengers - elderly person with disabilities	6,864	148	-	7,012
622	Total demand-response passengers	74,813	1,501	187	76,501
625	Days operated	236	51	1	288

Total passengers: 76,501

Vehicle Information

Code	Description	Quantity
655	Total demand-response vehicles	16
656	Demand-response vehicle with lifts	16
658	Total transit vehicles	16

Total vehicles: 16

continued...

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Nonfinancial Report

For the Year Ended September 30, 2017

(Unaudited)

Miscellaneous Information

Code	Description	Quantity
660	Diesel/gasoline gallons consumed	47,325
661	Total transit agency employees (full-time equivalents)	29
662	Total revenue vehicle operators (full-time equivalents)	21

concluded

OTSEGO COUNTY BUS SYSTEM

Operating Assistance Calculation

For the Year Ended September 30, 2017

	Nonurban
Total expenses	<u>\$ 1,867,037</u>
Less ineligible expenses:	
Defined benefit pension	108,564
Depreciation	131,032
Refunds and credits	16,132
Maintenance expenses	9,207
Lobbying expenses	<u>160</u>
Total ineligible expenses	<u>265,095</u>
Eligible expenses for state reimbursement	1,601,942
Reimbursement percentage	<u>38.9955%</u>
State operating assistance	624,685
Adjustment to prior year state receivable/payable	<u>(1,441)</u>
State operating assistance	<u>\$ 623,244</u>
Total state eligible expenses	\$ 1,601,942
Less additional federal ineligible expenses per Uniform Guidance	<u>8,250</u>
Eligible expenses for federal reimbursement	1,593,692
Reimbursement percentage	<u>18.50%</u>
Federal section 5311 operating assistance	294,833
Adjustment to prior year federal receivable/payable	<u>67,138</u>
Federal section 5311 operating assistance	<u>\$ 361,971</u>

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

March 23, 2018

Members of the County Commissioners
County of Otsego, Michigan
Gaylord, Michigan 49735

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 *Otsego County Bus System* (the "Bus System") an enterprise fund of the County of Otsego, Michigan, (the "County") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Bus System's basic financial statements, and have issued our report thereon dated March 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bus System'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 Bus System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bus System's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2017-001 and -002 that we consider to be material weaknesses.

Compliance and Other Matters

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

Otsego County Bus System's Response to Findings

The Bus System's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Bus System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Bus System'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 "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

OTSEGO COUNTY BUS SYSTEM

Schedule of Findings and Responses

For the Year Ended September 30, 2017

2017-001 - Balance Sheet Reconciliations/Material Audit Adjustments (Repeated from Prior Year)

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

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

Condition. The Bus System does not reconcile certain control accounts to subsidiary accounting records on a regular basis. As a result, material audit adjustments were proposed to management, which were approved and then posted by management to the Bus System's accounting records before financial statements could be prepared.

Cause. This condition was caused by the absence of a standard procedure for reconciling certain accounts to subsidiary ledgers or other supporting documentation.

Effect. As a result of this condition, the Bus System's assets and liabilities were initially misstated by amounts that were deemed to be quantitatively material, and numerous account balances were not adjusted timely throughout the year. Correcting entries were subsequently posted by management to the Bus System's records and the appropriate balances are presented in the audited financial statements.

Recommendation. We recommend that the Bus System provide adequate training to current staff so the Bus System's books and records may be maintained throughout the year in accordance with GAAP.

View of Responsible Officials. The Bus System reviews all accounts on a monthly basis for accuracy. Every attempt is made to ensure all transactions are reported properly. The Bus System will continue to review all accounts to the best of their ability to ensure that all accounts are reconciled at year end. The Bus System will also continue to actively communicate with its external auditors and other authorities related to accounting standards to ensure that the Bus System's financial statements are prepared in accordance with the appropriate accounting standards.

OTSEGO COUNTY BUS SYSTEM

Schedule of Findings and Responses

For the Year Ended September 30, 2017

2017-002 - Preparation of GAAP-Basis Financial Statements (Repeated from Prior Year)

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

Criteria. Management is are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Condition. As is the case with many smaller and medium-sized entities, the Bus System has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Bus System has placed reliance on its external auditors, who cannot by definition be considered a part of the Bus Systems' internal controls.

Cause. This condition was caused by the Bus System's decision that it is more cost effective to have its external auditors prepare the annual financial statements than to incur the time and expense of obtaining the necessary training and expertise required by the Bus System to perform this task internally.

Effect. As a result of this condition, the Bus System lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. The Bus System's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the Bus System accepts responsibility for the financial statements and that it is disclosed as part of the report.

View of Responsible Officials. The Bus System has evaluated the cost versus benefit of establishing internal controls over the recording, processing, and summarizing of accounting data, and determined that it is in the best interests of the Bus System to rely on its external auditors to prepare the financial statements. However, the Bus System will carefully review and take responsibility for the adjustments and financial statements.



OTSEGO COUNTY BUS SYSTEM

Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2017

Finding 2016-001 - Balance Sheet Reconciliation / Material Audit Adjustments

The Bus System does not properly reconcile its balance sheet accounts including: due (to) from other governmental units, capital assets and accumulated depreciation. Material journal entries in the areas of capital assets and due from other governmental units were proposed by the auditors. These adjustments were not detected by the Bus System's internal control over financial reporting. These entries were subsequently recorded in the general ledger. This matter was repeated as finding 2017-001.

Finding 2016-002 - Preparation of GAAP-Basis Financial Statements

The Bus System has relied on its external auditors to prepare the financial statements in accordance with GAAP. This matter was repeated as finding 2017-002.

