

# Otsego County Bus System

Years Ended  
September 30,  
2018 and 2017

Financial  
Statements



# OTSEGO COUNTY BUS SYSTEM

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**INDEPENDENT AUDITORS' REPORT**

March 21, 2019

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, 2018 and 2017, 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 audits. 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 audits 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, 2018 and 2017, 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, 2018 and 2017, 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 audits were 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 21, 2019, 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's 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, 2018, and 2017. 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 increase in net position of approximately \$135,000 in fiscal 2018, an increase of approximately \$320,000 from the fiscal 2017 decrease in net position of approximately \$185,000. The most significant factor in this increase was the decrease in salaries and related fringe expenditures of approximately \$247,000 from the prior year, due to a planned workforce reduction. The Bus System also experienced an increase in capital contribution revenue of approximately \$373,000, which was offset by a decrease in nonoperating revenue of approximately \$180,000 based on the decrease in eligible salaries and related fringe expenditures.

As a result, the Bus System's net position increased from \$57,380, as of September 30, 2017, to \$192,867, at September 30, 2018, which included an increase in the net investment of capital assets of \$202,446 and an increase in the unrestricted deficit of \$66,959. The Bus System is currently operating under a five year deficit elimination plan filed in 2017 to limit future operating losses.

### 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 2018 and 2017. 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 for 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, 2018 was \$192,867, an increase of \$135,487 or 236.1% from September 30, 2017. Total assets increased \$286,556, or 43.6%, and total liabilities decreased \$78,049, or 10.2%. The following table shows, in a condensed format, the statements of net position:

	Net Position		
	As of September 30,		
	2018	2017	2016
<b>Assets</b>			
Current and other assets	\$ 306,700	\$ 222,590	\$ 90,986
Capital assets, net	636,976	434,530	593,348
<b>Total assets</b>	<u>943,676</u>	<u>657,120</u>	<u>684,334</u>
Deferred outflows of resources	<u>140,229</u>	<u>362,472</u>	<u>544,221</u>
<b>Liabilities</b>			
Current liabilities	296,829	186,402	137,354
Net pension liability	389,359	577,835	848,995
<b>Total liabilities</b>	<u>686,188</u>	<u>764,237</u>	<u>986,349</u>
Deferred inflows of resources	<u>204,850</u>	<u>197,975</u>	<u>-</u>
<b>Net position</b>			
Net investment in capital assets	636,976	434,530	593,348
Unrestricted deficit	(444,109)	(377,150)	(351,142)
<b>Total net position</b>	<u>\$ 192,867</u>	<u>\$ 57,380</u>	<u>\$ 242,206</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,		
	2018	2017	2016
<b>Operating revenues</b>			
Charges for services	\$ 278,308	\$ 343,779	\$ 341,872
<b>Operating expenses</b>			
Salaries and wages	1,116,984	1,364,378	1,450,700
Depreciation	200,712	158,818	165,226
Other	356,274	343,841	338,841
<b>Total operating expenses</b>	<u>1,673,970</u>	<u>1,867,037</u>	<u>1,954,767</u>
<b>Operating loss</b>	<u>(1,395,662)</u>	<u>(1,523,258)</u>	<u>(1,612,895)</u>
<b>Nonoperating revenues</b>			
Taxes levied for transit	315,663	293,501	284,610
Government operating grants	804,969	985,215	937,182
Other	21,276	39,639	8,954
<b>Total nonoperating revenues</b>	<u>1,141,908</u>	<u>1,318,355</u>	<u>1,230,746</u>
<b>Change in net position before transfer in and capital contributions</b>	(253,754)	(204,903)	(382,149)
Transfer in	16,160	20,077	13,000
Capital contributions	373,081	-	-
<b>Change in net position</b>	135,487	(184,826)	(369,149)
<b>Net position</b>			
Beginning of year	<u>57,380</u>	<u>242,206</u>	<u>611,355</u>
End of year	<u>\$ 192,867</u>	<u>\$ 57,380</u>	<u>\$ 242,206</u>

The Bus System operating and nonoperating revenues, transfer in and capital contributions increased approximately \$127,000 from \$1,682,211 in fiscal 2017 to \$1,809,457 in fiscal 2018, attributable mainly to an approximate \$373,000 increase in capital contributions offset by a decrease of approximately \$180,000 in government operating grants and \$65,000 in charges for services. The expenses decreased approximately \$193,000 from \$1,867,037 in 2017 to \$1,673,970 in fiscal 2018. This change consisted mainly of a decrease in salaries and fringes of approximately \$247,000 due to a planned workforce reduction and an increase in depreciation expense of approximately \$42,000.

# 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)	
	2018	2017
Land	\$ 99,998	\$ 99,998
Buildings	185,780	223,788
Vehicles	339,795	104,307
Equipment	11,403	6,437
Total capital assets, net	<u>\$ 636,976</u>	<u>\$ 434,530</u>

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

### Economic Factors and Next Year's Budget

The 2019 budget was projected comparable to the 2018 budget with an increase in payroll attributable to a 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. 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,	
	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 223,723	\$ 116,267
Accounts receivable	5,479	23,241
Taxes receivable	1,630	1,364
Due from federal government	75,868	81,718
Total current assets	<u>306,700</u>	<u>222,590</u>
Noncurrent assets:		
Capital assets not being depreciated	99,998	99,998
Capital assets being depreciated, net	536,978	334,532
Total noncurrent assets	<u>636,976</u>	<u>434,530</u>
<b>Total assets</b>	<u>943,676</u>	<u>657,120</u>
<b>Deferred outflows of resources</b>		
Deferred pension amounts	<u>140,229</u>	<u>362,472</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	73,311	79,155
Due to state government	223,518	87,247
Due to other funds of Otsego County	-	20,000
Total current liabilities	<u>296,829</u>	<u>186,402</u>
Noncurrent liabilities:		
Net pension liability	<u>389,359</u>	<u>577,835</u>
<b>Total liabilities</b>	<u>686,188</u>	<u>764,237</u>
<b>Deferred inflows of resources</b>		
Deferred pension amounts	<u>204,850</u>	<u>197,975</u>
<b>Net position</b>		
Net investment in capital assets	636,976	434,530
Unrestricted deficit	<u>(444,109)</u>	<u>(377,150)</u>
<b>Total net position</b>	<u>\$ 192,867</u>	<u>\$ 57,380</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,	
	2018	2017
Operating revenues		
Fares - demand responses	\$ 83,428	\$ 89,158
Fares - contractual	168,256	201,419
Meals on Wheels	26,624	53,202
<b>Total operating revenues</b>	<b>278,308</b>	<b>343,779</b>
Operating expenses		
Salaries and fringes	1,116,984	1,364,378
Depreciation	200,712	158,818
Other	356,274	343,841
<b>Total operating expenses</b>	<b>1,673,970</b>	<b>1,867,037</b>
Operating loss	(1,395,662)	(1,523,258)
Nonoperating revenues		
Taxes levied for transit	315,663	293,501
Government operating grants:		
Federal (US DOT Operating Grant (Section 5311))	258,567	361,971
State (Local Bus Operating Assistance (Act 51))	546,402	623,244
Motor pool	13,341	20,635
Nontransportation revenue	-	2,250
Other revenue	7,935	16,754
<b>Total nonoperating revenues</b>	<b>1,141,908</b>	<b>1,318,355</b>
Change in net position before transfer in and capital contributions	(253,754)	(204,903)
Transfer in from other funds of Otsego County	16,160	20,077
Capital contributions:		
Federal capital grants	298,465	-
State capital grants	74,616	-
<b>Change in net position</b>	<b>135,487</b>	<b>(184,826)</b>
Net position, beginning of year	57,380	242,206
<b>Net position, end of year</b>	<b>\$ 192,867</b>	<b>\$ 57,380</b>

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,	
	2018	2017
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 296,070	\$ 346,257
Cash paid to suppliers	(357,326)	(340,568)
Cash paid to or on behalf of employees	(1,081,134)	(1,261,875)
	<u>(1,142,390)</u>	<u>(1,256,186)</u>
<b>Net cash used in operating activities</b>		
<b>Cash flows from noncapital financing activities</b>		
Taxes levied for transit	315,397	293,501
Federal operating grants	264,417	315,418
State operating grants	682,673	683,716
Motor pool receipts	13,341	20,635
Transfer in from other funds of Otsego County	16,160	20,077
Local contracts and reimbursement receipts	7,935	16,754
Local nontransportation receipts	-	2,250
Repayment of cash advance from other funds of Otsego County	(20,000)	(10,000)
	<u>1,279,923</u>	<u>1,342,351</u>
<b>Net cash provided by noncapital financing activities</b>		
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(403,158)	-
Federal capital grants	298,465	-
State capital grants	74,616	-
	<u>(30,077)</u>	<u>-</u>
<b>Net cash used in capital and related financing activities</b>		
<b>Net change in cash and cash equivalents</b>	107,456	86,165
<b>Cash and cash equivalents, beginning of year</b>	116,267	30,102
<b>Cash and cash equivalents, end of year</b>	<u>\$ 223,723</u>	<u>\$ 116,267</u>

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# OTSEGO COUNTY BUS SYSTEM

## Statements of Cash Flows

	For the Year Ended September 30,	
	2018	2017
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,395,662)	\$ (1,523,258)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	200,712	158,818
Change in operating assets and liabilities that provided (used) cash:		
Accounts receivable	17,762	2,478
Accounts payable and accrued liabilities	(5,844)	(2,788)
Change in net pension liability and deferred amounts	40,642	108,564
Net cash used in operating activities	<u>\$ (1,142,390)</u>	<u>\$ (1,256,186)</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*

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, 2018 and 2017, 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) until then. The Bus System reports deferred outflows of resources for changes 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 2017 taxable valuation of Otsego County property amounted to \$1,231,607,518 on which ad valorem taxes of .25 mills for the Bus System were levied in the amount of approximately \$308,000. 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.

# OTSEGO COUNTY BUS SYSTEM

## Notes to Financial Statements

### *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.

## 2. DEPOSITS

The following is a reconciliation of deposit balances as of September 30, 2018 and 2017:

	2018	2017
Statement of net position:		
Cash and cash equivalents	<u>\$ 223,723</u>	<u>\$ 116,267</u>
Deposits:		
Pooled cash with Otsego County	\$ 223,523	\$ 116,067
Cash on hand	<u>200</u>	<u>200</u>
Total	<u>\$ 223,723</u>	<u>\$ 116,267</u>

### Deposit 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 2018	Non-Urban 2017
Net eligible expenses	\$ 1,388,419	\$ 1,593,692
Funding rate	18.59%	18.50%
Section 5311 revenue	258,107	294,833
Funding received	<u>(184,340)</u>	<u>(259,359)</u>
Due from federal government - current year	73,767	35,474
Due from federal government - prior years	<u>2,101</u>	<u>46,244</u>
Total due from federal government	<u>\$ 75,868</u>	<u>\$ 81,718</u>

# OTSEGO COUNTY BUS SYSTEM

## Notes to Financial Statements

As of September 30, 2018, amounts due (to) from federal government are as follows:

Year Ended	Amount
2015	\$ 460
2016	15,738
2017	(14,097)
2018	<u>73,767</u>
Total	<u>\$ 75,868</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 2018	Non-Urban 2017
Net eligible expenses	\$ 1,398,169	\$ 1,601,942
Funding rate	39.1981%	38.9955%
Section 5311 revenue	<u>548,056</u>	<u>624,685</u>
Funding received	<u>(661,900)</u>	<u>(683,716)</u>
Due to State of Michigan - current year	(113,844)	(59,031)
Due to State of Michigan - prior years	<u>(109,674)</u>	<u>(28,216)</u>
Total due to state government	<u>\$ (223,518)</u>	<u>\$ (87,247)</u>

As of September 30, 2018, amounts due to State of Michigan are as follows:

Year Ended	Amount
2016	\$ 50,643
2017	59,031
2018	<u>113,844</u>
Total	<u>\$ 223,518</u>

# OTSEGO COUNTY BUS SYSTEM

## Notes to Financial Statements

### 4. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2018 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	396,425	-	1,371,057
Equipment	8,047	6,733	-	14,780
Total capital assets being depreciated	1,742,712	403,158	-	2,145,870
Less accumulated depreciation for:				
Buildings	(536,245)	(38,008)	-	(574,253)
Vehicles	(870,325)	(160,937)	-	(1,031,262)
Equipment	(1,610)	(1,767)	-	(3,377)
Total accumulated depreciation	(1,408,180)	(200,712)	-	(1,608,892)
Total capital assets being depreciated, net	334,532	202,446	-	536,978
Total capital assets, net	\$ 434,530	\$ 202,446	\$ -	\$ 636,976

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	23,344	1,347,713	1,371,057
Equipment	14,780	-	14,780
Total capital assets being depreciated	538,212	1,607,658	2,145,870
Less total accumulated depreciation	(414,427)	(1,194,465)	(1,608,892)
Total capital assets being depreciated, net	123,785	413,193	536,978
Total capital assets, net	\$ 197,122	\$ 439,854	\$ 636,976

# OTSEGO COUNTY BUS SYSTEM

## Notes to Financial Statements

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
	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	(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

### 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](http://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, 2017, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	4
Active employees	16
<b>Total membership</b>	<b>33</b>

*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	\$ 7,268	\$ -
Teamsters Bus	Hybrid Plan	Open	7.01%	-

*Net Pension Liability.* The Bus System's net pension liability was measured as of December 31, 2017, 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, 2017 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	55.50%	5.02%	2.79%
Global fixed income	18.50%	2.18%	0.40%
Real assets	13.50%	4.23%	0.51%
Diversifying strategies	<u>12.50%</u>	6.56%	0.82%
	<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, 2017 was 8.00%, consistent with the rate used in the prior year. 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, 2016	\$ 2,616,603	\$ 2,038,768	\$ 577,835
Changes for the year:			
Service cost	44,897	-	44,897
Interest	205,650	-	205,650
Differences between expected and actual experience	(79,986)	-	(79,986)
Changes in assumptions	-	-	-
Employer contributions	-	89,277	(89,277)
Employee contributions	-	4,540	(4,540)
Net investment income	-	269,486	(269,486)
Benefit payments, including refunds of employee contributions	(136,795)	(136,795)	-
Employee refunds	(57)	(57)	-
Administrative expense	-	(4,266)	4,266
Net changes	<u>33,709</u>	<u>222,185</u>	<u>(188,476)</u>
Balances at December 31, 2017	<u>\$ 2,650,312</u>	<u>\$ 2,260,953</u>	<u>\$ 389,359</u>

*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	\$ 667,218	\$ 389,359	\$ 150,625

*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 to Pensions*

For the year ended September 30, 2018, the Bus System recognized pension expense of \$115,555. 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	\$ 40,496	\$ 191,972	\$ (151,476)
Changes in assumptions	45,185	-	45,185
Net difference between projected and actual earnings on pension plan investments	-	12,878	(12,878)
	<u>85,681</u>	<u>204,850</u>	<u>(119,169)</u>
Contributions subsequent to the measurement date	54,548	-	54,548
Total	<u>\$ 140,229</u>	<u>\$ 204,850</u>	<u>\$ (64,621)</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
2019	\$ 26,487
2020	(68,857)
2021	(55,142)
2022	<u>(21,657)</u>
Total	<u>\$ (119,169)</u>

*Payable to the Pension Plan.* At September 30, 2018, the Bus System reported a payable of \$4,469 for the outstanding amount of contributions to the pension plan required for the Bus System's year ended September 30, 2018.

## 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, 2017.

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, 2017, the balance of the County's member retention was \$365,072.

Changes in the balances of claims liabilities are as follows:

	Fiscal Year Ended December 31,	
	2017	2016
Estimated liability, beginning of year	\$ 17,431	\$ -
Receipts	49,945	74,430
Estimated claims incurred	(37,850)	(55,111)
Claim payments	(17,365)	(1,888)
	<u>12,161</u>	<u>17,431</u>
Estimated liability, end of year	\$ 12,161	\$ 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, 2017 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, 2018, 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.

Rebates of energy efficiency improvement costs totaled \$128 for fiscal year 2018 and is deducted under 54000.

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, 2018, was \$200,712. Eligible depreciation for 2018 amounted to \$28,747 and the remaining \$171,965 was ineligible and is deducted under 55007.

Expenses associated with meal delivery (Meals on Wheels) are not eligible and are deducted under 55008. The Bus System discontinued operation of the Meals on Wheels program during fiscal 2018.

Lobbying expenses of \$356 associated with MASSTrans membership for fiscal 2018 are deducted under 55009.

Expenses associated with 40710 Nontransportation Revenue of \$11,604 are subtracted out as ineligible under 56001 as it relates to motor pool expenses incurred.

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 \$115,555. The entire amount of \$115,555 was expensed on the books and is reported in 50220 Defined Benefit Pension. The Bus System paid (e.g., an out of pocket payment) \$74,913. Therefore, \$40,642 (pension expense of \$115,555 less the amount paid of \$74,913 is eliminated under 58020 Ineligible Defined Benefit Pension).

## OTSEGO COUNTY BUS SYSTEM

### Notes to Financial Statements

No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses. 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 \$4,675 includes receipt of revenues from continuing advertising contracts.

### 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, 2018, the Bus System has contracted to purchase four new busses that are expected to be received and placed in operation in the summer of 2019. The estimated total cost of the busses is \$417,760 and will be purchased with State and Federal funds.

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## 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,			
	2018	2017	2016	2015
<b>Total pension liability</b>				
Service cost	\$ 44,897	\$ 56,836	\$ 57,030	\$ 52,717
Interest	205,650	270,324	240,059	227,872
Differences between expected and actual experience	(79,986)	(966,647)	161,987	-
Changes in assumptions	-	(3,562)	180,746	-
Benefit payments, including refunds of employee contributions	(136,852)	(181,958)	(159,593)	(110,465)
Other changes	-	-	299	-
<b>Net change in total pension liability</b>	<u>33,709</u>	<u>(825,007)</u>	<u>480,528</u>	<u>170,124</u>
<b>Total pension liability, beginning of year</b>	<u>2,616,603</u>	<u>3,441,610</u>	<u>2,961,082</u>	<u>2,790,958</u>
<b>Total pension liability, end of year</b>	<u>2,650,312</u>	<u>2,616,603</u>	<u>3,441,610</u>	<u>2,961,082</u>
<b>Plan fiduciary net position</b>				
Employer contributions	89,277	65,991	72,717	64,357
Employee contributions	4,540	-	-	-
Net investment income (loss)	269,486	270,030	(40,348)	165,080
Benefit payments, including refunds of employee contributions	(136,852)	(181,958)	(159,593)	(110,465)
Administrative expense	(4,266)	(5,230)	(5,928)	(6,065)
Differences between expected and actual experience	-	(702,680)	-	-
<b>Net change in plan fiduciary net position</b>	<u>222,185</u>	<u>(553,847)</u>	<u>(133,152)</u>	<u>112,907</u>
<b>Plan fiduciary net position, beginning of year</b>	<u>2,038,768</u>	<u>2,592,615</u>	<u>2,725,767</u>	<u>2,612,860</u>
<b>Plan fiduciary net position, end of year</b>	<u>2,260,953</u>	<u>2,038,768</u>	<u>2,592,615</u>	<u>2,725,767</u>
<b>Bus System's net pension liability</b>	<u>\$ 389,359</u>	<u>\$ 577,835</u>	<u>\$ 848,995</u>	<u>\$ 235,315</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	85.3%	77.9%	75.3%	92.1%
<b>Covered payroll</b>	<u>\$ 530,661</u>	<u>\$ 694,798</u>	<u>\$ 710,949</u>	<u>\$ 625,094</u>
<b>Bus System's net pension liability as a percentage of covered payroll</b>	73.4%	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
2018	\$ 2,650,312	\$ 2,260,953	\$ 389,359	85.3%	\$ 530,661	73.4%
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
2018	\$ 64,289	\$ 74,913	\$ (10,624)	\$ 570,905	13.1%
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 of Net Position By Operation

September 30, 2018

	Bus System	Meals on Wheels	Totals
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 223,723	\$ -	\$ 223,723
Accounts receivable	5,479	-	5,479
Taxes receivable	1,630	-	1,630
Due from federal government	75,868	-	75,868
Total current assets	<u>306,700</u>	<u>-</u>	<u>306,700</u>
Noncurrent assets:			
Capital assets not being depreciated	99,998	-	99,998
Capital assets being depreciated, net	536,978	-	536,978
Total noncurrent assets	<u>636,976</u>	<u>-</u>	<u>636,976</u>
Total assets	<u>943,676</u>	<u>-</u>	<u>943,676</u>
Deferred outflows of resources			
Deferred pension amounts	<u>140,229</u>	<u>-</u>	<u>140,229</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	73,311	-	73,311
Due to state government	223,518	-	223,518
Total current liabilities	<u>296,829</u>	<u>-</u>	<u>296,829</u>
Noncurrent liability:			
Net pension liability	<u>389,359</u>	<u>-</u>	<u>389,359</u>
Total liabilities	<u>686,188</u>	<u>-</u>	<u>686,188</u>
Deferred inflows of resources			
Deferred pension amounts	<u>204,850</u>	<u>-</u>	<u>204,850</u>
<b>Net position</b>			
Net investment in capital assets	636,976	-	636,976
Unrestricted (deficit)	(444,109)	-	(444,109)
Total net position	<u>\$ 192,867</u>	<u>\$ -</u>	<u>\$ 192,867</u>

# OTSEGO COUNTY BUS SYSTEM

## Combining Schedule of Revenues, Expenses and Change in Net Position By Operation

For the Year Ended September 30, 2018

	Bus System	Meals on Wheels	Totals
Operating revenues			
Fares - demand responses	\$ 83,428	\$ -	\$ 83,428
Fares - contractual	168,256	-	168,256
Meals on Wheels	-	26,624	26,624
<b>Total operating revenues</b>	<b>251,684</b>	<b>26,624</b>	<b>278,308</b>
Operating expenses			
Salaries and fringes	1,098,071	18,913	1,116,984
Depreciation	200,712	-	200,712
Other	324,081	32,193	356,274
<b>Total operating expenses</b>	<b>1,622,864</b>	<b>51,106</b>	<b>1,673,970</b>
<b>Operating (loss) income</b>	<b>(1,371,180)</b>	<b>(24,482)</b>	<b>(1,395,662)</b>
Nonoperating revenues			
Taxes levied for transit	315,663	-	315,663
Government operating grants:			
Federal (US DOT Operating Grant (Section 5311))	258,567	-	258,567
State (Local Bus Operating Assistance (Act 51))	546,402	-	546,402
Motor pool	13,341	-	13,341
Other revenue	7,935	-	7,935
<b>Total nonoperating revenues</b>	<b>1,141,908</b>	<b>-</b>	<b>1,141,908</b>
Change in net position before transfer in and capital contributions	(229,272)	(24,482)	(253,754)
Transfer in	16,160	-	16,160
Capital contributions:			
Federal capital grants	298,465	-	298,465
State capital grants	74,616	-	74,616
<b>Change in net position</b>	<b>159,969</b>	<b>(24,482)</b>	<b>135,487</b>
Net position, beginning of year	32,898	24,482	57,380
<b>Net position, end of year</b>	<b>\$ 192,867</b>	<b>\$ -</b>	<b>\$ 192,867</b>

# OTSEGO COUNTY BUS SYSTEM

## Combining Schedule of Cash Flows By Operation For the Year Ended September 30, 2018

	Bus System	Meals on Wheels	Totals
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 265,012	\$ 31,058	\$ 296,070
Cash payments to suppliers	(324,081)	(33,245)	(357,326)
Cash payments to or on behalf of employees	(1,062,221)	(18,913)	(1,081,134)
<b>Net cash used in operating activities</b>	<b>(1,121,290)</b>	<b>(21,100)</b>	<b>(1,142,390)</b>
<b>Cash flows from noncapital financing activities</b>			
Taxes levied for transit	315,397	-	315,397
Federal operating grants	264,417	-	264,417
State operating grants	682,673	-	682,673
Repayment of cash advance from other funds	(20,000)	-	(20,000)
Motor pool receipts	13,341	-	13,341
Transfers in	16,160	-	16,160
Local contracts and reimbursement receipts	7,935	-	7,935
<b>Net cash provided by noncapital financing activities</b>	<b>1,279,923</b>	<b>-</b>	<b>1,279,923</b>
<b>Cash flows from capital and related financing activities</b>			
Acquisition of capital assets	(403,158)	-	(403,158)
Federal capital grants	298,465	-	298,465
State capital grants	74,616	-	74,616
<b>Net cash used in capital and related financing activities</b>	<b>(30,077)</b>	<b>-</b>	<b>(30,077)</b>
<b>Net change in cash and cash equivalents</b>	<b>128,556</b>	<b>(21,100)</b>	<b>107,456</b>
Cash and cash equivalents, beginning of year	95,167	21,100	116,267
<b>Cash and cash equivalents, end of year</b>	<b>\$ 223,723</b>	<b>\$ -</b>	<b>\$ 223,723</b>
<b>Reconciliation of operating loss to net cash used in operating activities</b>			
Operating loss	\$ (1,371,180)	\$ (24,482)	\$ (1,395,662)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense	200,712	-	200,712
Changes in operating assets and liabilities that provided (used) cash:			
Accounts receivable	13,328	4,434	17,762
Accounts payable and accrued liabilities	(4,792)	(1,052)	(5,844)
Net pension liability and deferred pension amounts	40,642	-	40,642
<b>Net cash used in operating activities</b>	<b>\$ (1,121,290)</b>	<b>\$ (21,100)</b>	<b>\$ (1,142,390)</b>

# OTSEGO COUNTY BUS SYSTEM

## Schedules of Local Revenues

Michigan Bureau of Passenger Transportation (BPT) Schedules

		Year Ended September 30, 2018	Year Ended September 30, 2017
40100	Passenger fares - demand responses	\$ 83,428	\$ 89,158
40400	Meal delivery program (Meals on Wheels)	26,624	53,202
40615	Advertising	4,675	2,250
40699	Other auxiliary transportation revenues	3,132	622
40710	Sale of maintenance services	13,341	20,635
40800	Taxes levied directly for transit agency	315,663	293,501
40950	Passenger fares - local service contract	168,256	201,419
40999	Other local contracts and reimbursements	7,935	16,132
44000	Refunds and credits	128	-
		<hr/>	<hr/>
	Total	\$ 623,182	\$ 676,919
		<hr/> <hr/>	<hr/> <hr/>

## OTSEGO COUNTY BUS SYSTEM

### Schedules of Expenditures of Federal and State Awards Michigan Bureau of Passenger Transportation (BPT) Schedules

	Year Ended September 30, 2018	Year Ended September 30, 2017
State of Michigan grants		
Michigan Department of Transportation (MDOT):		
Operating assistance (Act 51) 1994 (urban)	\$ 546,402	\$ 623,244
Capital assistance - federal	298,465	-
Capital assistance - state	74,616	-
	<hr/>	<hr/>
Total passed through Michigan Department of Transportation (MDOT)	919,483	623,244
Federal grants		
U.S. Department of Transportation:		
Operating grant - Section 5311 Passed through MDOT	258,567	361,971
	<hr/>	<hr/>
Total government operating grants	<u>\$ 1,178,050</u>	<u>\$ 985,215</u>

# OTSEGO COUNTY BUS SYSTEM

## Nonurban Regular Service Revenue Report Michigan Bureau of Passenger Transportation (BPT) Schedules For the Year Ended September 30, 2018

Code	Description	Amount
401:	Farebox revenue	
40100	Passenger fares	\$ 83,428
404:	Package and charter revenue	
40400	Package delivery/meal delivery programs	26,624
406:	Auxiliary transportation revenues	
40615	Advertising	4,675
40699	Other auxiliary transportation revenues	3,132
407:	NonTransportation revenues	
40710	Sales of maintenance services	13,341
408:	Local revenue	
40800	Taxes levied directly for/by transit agency	315,663
409:	Local revenue	
40910	Local operating assistance	16,160
40950	Local service contract/local source (\$168,256 contractual fares)	168,256
411:	State formula and contracts	
41101	State operating assistance	548,056
413:	Federal contracts	
41301	Federal Section 5311 (operating funds only)	258,107
440:	Other revenue	
44000	Refunds and credits	128
	Total revenue for current year	1,437,570
	Adjustments to operating revenue based on prior years	
	State operating assistance	(1,654)
	Federal Section 5311 (operating funds only)	460
	Total revenue	\$ 1,436,376

# OTSEGO COUNTY BUS SYSTEM

## Nonurban Regular Service Expense Report Michigan Bureau of Passenger Transportation (BPT) Schedules For the Year Ended September 30, 2018

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501:	Labor				
50101	Operators' salaries & wages	\$ 428,528	\$ -	\$ -	\$ 428,528
50102	Other salaries & wages	-	61,814	100,278	162,092
50103	Dispatchers' salaries & wages	119,735	-	-	119,735
502:	Fringe benefits				
50200	Fringe benefits	194,421	33,709	39,438	267,568
50210	Defined contribution pension	4,688	649	2,062	7,399
50220	Defined benefit pension	99,966	7,985	23,711	131,662
503:	Services				
50302	Advertising fees	-	-	3,002	3,002
50305	Audit cost	-	-	9,750	9,750
50399	Other services	19,780	3,744	82,026	105,550
504:	Materials and supplies				
50401	Fuel & lubricants	91,464	-	-	91,464
50402	Tires & tubes	23,044	-	-	23,044
50499	Other materials & supplies	43,600	11,255	5,817	60,672
505:	Utilities				
50500	Utilities	-	-	27,735	27,735
506:	Insurance				
50603	Other insurance	20,397	-	-	20,397
509:	Miscellaneous expenses				
50902	Travel & meetings and training	199	-	63	262
50903	Association dues and subscriptions	199	-	2,595	2,794
50999	Other misc expenses	11,604	-	-	11,604
513:	Depreciation				
51300	Depreciation	200,712	-	-	200,712
	Total operating expenses				<u>1,673,970</u>
540-580:	Ineligible expenses				
54000	Ineligible refunds and credits	128	-	-	128
55007	Ineligible depreciation	171,965	-	-	171,965
55008	Other ineligible expenses (Meals on Wheels delivery)	51,106	-	-	51,106
55009	Ineligible percent of association dues	-	-	356	356
56001	Ineligible expense associated with sale of maintenance service	11,604	-	-	11,604
58020	Ineligible defined benefit pension	40,642	-	-	40,642
	Total ineligible expenses				<u>275,801</u>
	Total eligible expenses				<u>\$ 1,398,169</u>

## OTSEGO COUNTY BUS SYSTEM

### Nonurban Regular Service Nonfinancial Report (Unaudited)

Michigan Bureau of Passenger Transportation (BPT) Schedules  
For the Year Ended September 30, 2018

#### Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle hours	20,957	660	41	21,658
611	Vehicle miles	261,448	8,443	458	270,349
615	Passengers - regular	17,564	407	56	18,027
616	Passengers - elderly	6,998	169	4	7,171
617	Passengers - persons with disabilities	32,318	387	15	32,720
618	Passengers - elderly person with disabilities	6,754	142	11	6,907
622	Total demand-response passengers	63,634	1,105	86	64,825
625	Days operated	254	52	2	308

Total passengers: 64,825

#### 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 (Unaudited) For the Year Ended September 30, 2018

### Miscellaneous Information

Code	Description	Quantity
660	Diesel/gasoline gallons consumed	38,079
661	Total transit agency employees (full-time equivalents)	19
662	Total revenue vehicle operators (full-time equivalents)	12
		concluded

# OTSEGO COUNTY BUS SYSTEM

## Operating Assistance Calculation

Michigan Bureau of Passenger Transportation (BPT) Schedules  
For the Year Ended September 30, 2018

Nonurban

Total expenses	<u>\$ 1,673,970</u>
Less ineligible expenses:	
Refunds and credits	128
Depreciation	171,965
Meals on Wheels delivery	51,106
Lobbying expenses	356
Local contracts	11,604
Defined benefit pension	<u>40,642</u>
Total ineligible expenses	<u>275,801</u>
Eligible expenses for state reimbursement	1,398,169
Reimbursement percentage	<u>39.1981%</u>
State operating assistance	548,056
Adjustment to prior year state receivable/payable	<u>(1,654)</u>
State operating assistance	<u>\$ 546,402</u>
Total state eligible expenses	\$ 1,398,169
Less additional federal ineligible expenses per Uniform Guidance	<u>9,750</u>
Eligible expenses for federal reimbursement	1,388,419
Reimbursement percentage	<u>18.59%</u>
Federal section 5311 operating assistance	258,107
Adjustment to prior year federal receivable/payable	<u>460</u>
Federal section 5311 operating assistance	<u>\$ 258,567</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 21, 2019

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, 2018, 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 21, 2019.

#### 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and responses as items 2018-001 and 2018-002 to be material weaknesses.

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. We consider the deficiency described in the accompany schedule of findings and responses as item 2018-003 to be a significant deficiency.

#### 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 "Lehmann 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, 2018

2018-001 - 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 principles.

# OTSEGO COUNTY BUS SYSTEM

## Schedule of Findings and Responses

For the Year Ended September 30, 2018

2018-002 - Preparation of GAAP-Basis Financial Statements (Repeated from Prior Year)

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

Criteria. Management is 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

## Schedule of Findings and Responses

For the Year Ended September 30, 2018

### 2018-003 - Timeliness of Bank Reconciliations

**Finding Type.** Significant Deficiency in Internal Control over Financial Reporting.

**Criteria.** The timely preparation and review of bank reconciliations is a key component of a sound system of internal control. The State of Michigan Department of Treasury suggests that bank reconciliations be completed within six weeks of each month, including year end.

**Condition.** During our audit, we noted that the General Checking pooled cash account reconciliation was not prepared or reviewed until December 1, 2018; approximately nine weeks after month end and the supporting cash summary was not prepared or reviewed until December 14, 2018; approximately eleven weeks after month end.

**Cause.** The County's Treasurer's Department did not perform the bank reconciliation process in a timely fashion due to staff vacancies.

**Effect.** As a result of this condition, the County has not complied with the State of Michigan requirements related to timely completion of bank reconciliations.

**Recommendation.** We recommend that the County develop a written policy for complying with the State of Michigan's bank reconciliation policy and communicate this policy to all County employees that are responsible for performing bank reconciliations. We also recommend that the County consider cross-training employees to avoid future non-compliance due to staff vacancies.

**View of Responsible Officials.** The County was in the process of training new staff and as such, experienced a delay in performing timely bank reconciliations. Going forward, the County will monitor the timeliness of bank reconciliations to ensure compliance with the State of Michigan's recommendation as noted in the Accounting Procedures Manual for Local Units of Government in Michigan.

