

Otsego County Bus System

Years Ended
September 30,
2019 and 2018

Financial
Statements

OTSEGO COUNTY BUS SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 30, 2020

Members of the County Commission
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 County of Otsego, Michigan, (the "County") as of and for the years ended September 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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 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 31-34, and 37 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 35-36 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 30, 2020, 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 "Rehmann Loban LLC". The signature is written in a cursive, flowing style.

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 years ended September 30, 2019, and 2018. 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 \$269,000 in fiscal 2019, an increase of approximately \$134,000 from the fiscal 2018 increase in net position of approximately \$135,000. The most significant factor in this increase was the reduction of operating expenses. Salaries and fringes were reduced by approximately \$54,000 due to retirement plan changes, depreciation was approximately \$88,000 less than the prior year due to four busses being fully depreciated at the end fiscal 2018 and the Meals on Wheels program was discontinued which caused \$31,000 of the \$58,000 decrease in other expenses. The Bus System also experienced an increase in capital contribution revenue of approximately \$60,000, which was offset by a decrease in nonoperating revenue of approximately \$14,000 which was due to less funding through MDOT for operations and less revenue for maintenance and repair work (motor pool).

As a result, the Bus System's net position increased from approximately \$193,000, as of September 30, 2018, to approximately \$461,000, at September 30, 2019, which included an increase in the net investment of capital assets of approximately \$320,000 and an increase in the unrestricted deficit of approximately \$52,000. 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 2019 and 2018. 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, 2019 was \$461,442, an increase of \$268,575 or 139.3% from September 30, 2018. Total assets increased \$707,144, or 74.9%, and total liabilities increased \$608,532, or 88.7%. The following table shows, in a condensed format, the statements of net position:

	Net Position		
	As of September 30,		
	2019	2018	2017
Assets			
Current and other assets	\$ 693,419	\$ 306,700	\$ 222,590
Capital assets, net	957,401	636,976	434,530
Total assets	<u>1,650,820</u>	<u>943,676</u>	<u>657,120</u>
Deferred outflows of resources	<u>216,690</u>	<u>140,229</u>	<u>362,472</u>
Liabilities			
Current liabilities	645,882	296,829	186,402
Net pension liability	648,838	389,359	577,835
Total liabilities	<u>1,294,720</u>	<u>686,188</u>	<u>764,237</u>
Deferred inflows of resources	<u>111,348</u>	<u>204,850</u>	<u>197,975</u>
Net position			
Net investment in capital assets	957,401	636,976	434,530
Unrestricted deficit	<u>(495,959)</u>	<u>(444,109)</u>	<u>(377,150)</u>
Total net position	<u>\$ 461,442</u>	<u>\$ 192,867</u>	<u>\$ 57,380</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,		
	2019	2018	2017
Operating revenues			
Charges for services	\$ 248,788	\$ 278,308	\$ 343,779
Operating expenses			
Salaries and wages	1,063,406	1,116,984	1,364,378
Depreciation	113,085	200,712	158,818
Other	297,982	356,274	343,841
Total operating expenses	<u>1,474,473</u>	<u>1,673,970</u>	<u>1,867,037</u>
Operating loss	<u>(1,225,685)</u>	<u>(1,395,662)</u>	<u>(1,523,258)</u>
Nonoperating revenues			
Taxes levied for transit	316,488	315,663	293,501
Government operating grants	730,390	804,969	985,215
Other	13,872	21,276	39,639
Total nonoperating revenues	<u>1,060,750</u>	<u>1,141,908</u>	<u>1,318,355</u>
Change in net position before transfer in and capital contributions	<u>(164,935)</u>	<u>(253,754)</u>	<u>(204,903)</u>
Transfer in	-	16,160	20,077
Capital contributions	433,510	373,081	-
Change in net position	<u>268,575</u>	<u>135,487</u>	<u>(184,826)</u>
Net position			
Beginning of year	<u>192,867</u>	<u>57,380</u>	<u>242,206</u>
End of year	<u>\$ 461,442</u>	<u>\$ 192,867</u>	<u>\$ 57,380</u>

The Bus System operating expenses decreased approximately \$199,000 from \$1,673,970 in 2018 to \$1,474,473 in fiscal 2019 as discussed above.

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, were as follows at September 30:

	Capital Assets (Net of Depreciation)	
	2019	2018
Land	\$ 99,998	\$ 99,998
Buildings	147,778	185,780
Vehicles	685,033	339,795
Equipment	<u>24,592</u>	<u>11,403</u>
Total capital assets, net	<u>\$ 957,401</u>	<u>\$ 636,976</u>

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

Economic Factors and Next Year's Budget

The 2020 budget was projected comparable to the 2019 budget. The Bus System revenue levels will continue to be mainly dependent upon Federal and State grants. The property tax allocation voted millage increase is expected to offset the declining state and federal funding. Local charges for services are anticipated to remain stable. The Bus System will continue to operate as it has with a slow growth operational mindset to ensure the economic challenges within our state and federal funding do not have a negative 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.

BASIC FINANCIAL STATEMENTS

OTSEGO COUNTY BUS SYSTEM

Statements of Net Position

	September 30,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 595,000	\$ 223,723
Accounts receivable	3,573	5,479
Taxes receivable	1,845	1,630
Due from federal government	93,001	75,868
Total current assets	<u>693,419</u>	<u>306,700</u>
Noncurrent assets:		
Capital assets not being depreciated	99,998	99,998
Capital assets being depreciated, net	857,403	536,978
Total noncurrent assets	<u>957,401</u>	<u>636,976</u>
Total assets	<u>1,650,820</u>	<u>943,676</u>
Deferred outflows of resources		
Deferred pension amounts	<u>216,690</u>	<u>140,229</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	507,146	73,311
Due to state government	138,736	223,518
Total current liabilities	<u>645,882</u>	<u>296,829</u>
Noncurrent liabilities:		
Net pension liability	<u>648,838</u>	<u>389,359</u>
Total liabilities	<u>1,294,720</u>	<u>686,188</u>
Deferred inflows of resources		
Deferred pension amounts	<u>111,348</u>	<u>204,850</u>
Net position		
Net investment in capital assets	957,401	636,976
Unrestricted deficit	<u>(495,959)</u>	<u>(444,109)</u>
Total net position	<u>\$ 461,442</u>	<u>\$ 192,867</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,	
	2019	2018
Operating revenues		
Fares - demand responses	\$ 78,445	\$ 83,428
Fares - contractual	170,343	168,256
Meals on Wheels	-	26,624
Total operating revenues	248,788	278,308
Operating expenses		
Salaries and fringes	1,063,406	1,116,984
Depreciation	113,085	200,712
Other	297,982	356,274
Total operating expenses	1,474,473	1,673,970
Operating loss	(1,225,685)	(1,395,662)
Nonoperating revenues		
Taxes levied for transit	316,488	315,663
Government operating grants:		
Federal (US DOT Operating Grant (Section 5311))	224,709	258,567
State (Local Bus Operating Assistance (Act 51))	505,681	546,402
Motor pool	3,702	13,341
Nontransportation revenue	3,051	-
Other revenue	7,119	7,935
Total nonoperating revenues	1,060,750	1,141,908
Change in net position before transfer in and capital contributions	(164,935)	(253,754)
Transfer in from other funds of Otsego County	-	16,160
Capital contributions:		
Federal capital grants	96,932	298,465
State capital grants	336,578	74,616
Change in net position	268,575	135,487
Net position, beginning of year	192,867	57,380
Net position, end of year	\$ 461,442	\$ 192,867

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,	
	2019	2018
Cash flows from operating activities		
Cash received from customers	\$ 250,694	\$ 296,070
Cash paid to suppliers	(297,982)	(357,326)
Cash paid to or on behalf of employees	(540,055)	(1,081,134)
	<u>(587,343)</u>	<u>(1,142,390)</u>
Net cash used in operating activities		
Cash flows from noncapital financing activities		
Taxes levied for transit	316,273	315,397
Federal operating grants	207,576	264,417
State operating grants	420,899	682,673
Motor pool receipts	3,702	13,341
Transfer in from other funds of Otsego County	-	16,160
Local contracts and reimbursement receipts	7,119	7,935
Repayment of cash advance from other funds of Otsego County	-	(20,000)
	<u>955,569</u>	<u>1,279,923</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
Proceeds from the sale of capital assets	3,051	-
Acquisition of capital assets	(433,510)	(403,158)
Federal capital grants	96,932	298,465
State capital grants	336,578	74,616
	<u>3,051</u>	<u>(30,077)</u>
Net cash provided by (used in) capital and related financing activities		
Net change in cash and cash equivalents	<u>371,277</u>	<u>107,456</u>
Cash and cash equivalents, beginning of year	<u>223,723</u>	<u>116,267</u>
Cash and cash equivalents, end of year	<u>\$ 595,000</u>	<u>\$ 223,723</u>

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OTSEGO COUNTY BUS SYSTEM

Statements of Cash Flows

	For the Year Ended September 30,	
	2019	2018
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,225,685)	\$ (1,395,662)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	113,085	200,712
Change in operating assets and liabilities that provided (used) cash:		
Accounts receivable	1,906	17,762
Accounts payable and accrued liabilities	433,835	(5,844)
Change in net pension liability and deferred amounts	89,516	40,642
Net cash used in operating activities	<u>\$ (587,343)</u>	<u>\$ (1,142,390)</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 busing 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 busing 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, 2019 and 2018, 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 2018 taxable valuation of Otsego County property amounted to \$1,258,713,819 on which ad valorem taxes of .25 mills for the Bus System were levied in the amount of approximately \$315,000. 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.

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, 2019 and 2018:

	2019	2018
Statement of net position:		
Cash and cash equivalents	<u>\$ 595,000</u>	<u>\$ 223,723</u>
Deposits:		
Pooled cash with Otsego County	\$ 594,800	\$ 223,523
Cash on hand	<u>200</u>	<u>200</u>
Total	<u>\$ 595,000</u>	<u>\$ 223,723</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 2019	Non-Urban 2018
Net eligible expenses	\$ 1,287,392	\$ 1,388,419
Funding rate	18.00%	18.59%
Section 5311 revenue	231,731	258,107
Funding received	<u>(165,549)</u>	<u>(184,340)</u>
Due from federal government - current year	66,182	73,767
Due from federal government - prior years	<u>26,819</u>	<u>2,101</u>
Total due from federal government	<u>\$ 93,001</u>	<u>\$ 75,868</u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

As of September 30, 2019, amounts due from/(to) the federal government are as follows:

Year Ended	Amount
2016	\$ 44,713
2017	(19,410)
2018	1,516
2019	<u>66,182</u>
Total	<u>\$ 93,001</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 2019	Non-Urban 2018
Net eligible expenses	\$ 1,297,392	\$ 1,398,169
Funding rate	38.0667%	39.1981%
Section 5311 revenue	<u>493,874</u>	<u>548,056</u>
Funding received	<u>(528,852)</u>	<u>(661,900)</u>
Due to State of Michigan - current year	(34,978)	(113,844)
Due to State of Michigan - prior years	<u>(103,758)</u>	<u>(109,674)</u>
Total due to state government	<u>\$ (138,736)</u>	<u>\$ (223,518)</u>

As of September 30, 2019, amounts due (to)/from the State of Michigan are as follows:

Year Ended	Amount
2016	\$ (42,558)
2017	14,135
2018	(75,335)
2019	<u>(34,978)</u>
Total	<u>\$ (138,736)</u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

4. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2019 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	1,371,057	416,760	(67,275)	1,720,542
Equipment	14,780	16,750	-	31,530
Total capital assets being depreciated	2,145,870	433,510	(67,275)	2,512,105
Less accumulated depreciation for:				
Buildings	(574,253)	(38,002)	-	(612,255)
Vehicles	(1,031,262)	(71,522)	67,275	(1,035,509)
Equipment	(3,377)	(3,561)	-	(6,938)
Total accumulated depreciation	(1,608,892)	(113,085)	67,275	(1,654,702)
Total capital assets being depreciated, net	536,978	320,425	-	857,403
Total capital assets, net	\$ 636,976	\$ 320,425	\$ -	\$ 957,401

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	-	1,720,542	1,720,542
Equipment	14,780	16,750	31,530
Total capital assets being depreciated	514,868	1,997,237	2,512,105
Less total accumulated depreciation	(441,640)	(1,213,062)	(1,654,702)
Total capital assets being depreciated, net	73,228	784,175	857,403
Total capital assets, net	\$ 146,565	\$ 810,836	\$ 957,401

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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
	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

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, Bus System's defined benefit pension plan provides 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. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

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, 2018, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	5
Active employees	15
 Total membership	 36

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	\$ 5,957	\$ -
Teamsters Bus	Hybrid Plan	Open	7.24%	-

Net Pension Liability. The Bus System's net pension liability was measured as of December 31, 2018, 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, 2018 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% annually.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

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

Long-term Expected Rate of Return. 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%	6.15%	3.41%
Global fixed income	18.50%	1.26%	0.23%
Real assets	13.50%	7.22%	0.98%
Diversifying strategies	12.50%	5.00%	0.63%
	<u>100.00%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u><u>8.00%</u></u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2018 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.

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, 2017	\$ 2,650,312	\$ 2,260,953	\$ 389,359
Changes for the year:			
Service cost	42,458	-	42,458
Interest	207,302	-	207,302
Differences between expected and actual experience	(7,153)	-	(7,153)
Employer contributions	-	70,564	(70,564)
Employee contributions	-	3,507	(3,507)
Net investment income	-	(86,609)	86,609
Benefit payments, including refunds of employee contributions	(160,548)	(160,548)	-
Administrative expense	-	(4,334)	4,334
Net changes	82,059	(177,420)	259,479
Balances at December 31, 2018	\$ 2,732,371	\$ 2,083,533	\$ 648,838

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	\$ 925,541	\$ 648,838	\$ 410,433

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/Inflows of Resources Related to Pensions

For the year ended September 30, 2019, the Bus System recognized pension expense of \$150,813. 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	\$ -	\$ 111,348	\$ (111,348)
Net difference between projected and actual earnings on pension plan investments	171,409	-	171,409
	<u>171,409</u>	<u>111,348</u>	<u>60,061</u>
Contributions subsequent to the measurement date	45,281	-	45,281
	<u>45,281</u>	<u>-</u>	<u>45,281</u>
Total	<u>\$ 216,690</u>	<u>\$ 111,348</u>	<u>\$ 105,342</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, 2019. 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
2020	\$ (17,874)
2021	(4,159)
2022	29,325
2023	<u>52,769</u>
Total	<u>\$ 60,061</u>

Payable to the Pension Plan. At September 30, 2019, the Bus System reported a payable of \$3,616 for the outstanding amount of contributions to the pension plan required for the Bus System's year ended September 30, 2019.

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, 2018.

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, 2018, the balance of the County's member retention was \$370,100.

Changes in the balances of claims liabilities are as follows:

	Fiscal Year Ended December 31,	
	2018	2017
Estimated liability, beginning of year	\$ 12,160	\$ 17,430
Receipts	60,652	49,945
Estimated claims incurred	(44,888)	(37,850)
Claim payments	(10,736)	(17,365)
	<u>17,188</u>	<u>12,160</u>
Estimated liability, end of year	\$ 17,188	\$ 12,160

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, 2018 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 and 2004 Administration Service Otsego County. As of September 30, 2019, 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 31-37 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.

Refund from vendor totaled \$272 for fiscal year 2019 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 2018, no assets have been approved by the OPT. Total depreciation expense as of September 30, 2019, was \$113,085. Eligible depreciation for 2019 amounted to \$28,748 and the remaining \$84,337 was ineligible and is deducted under 55007.

Lobbying expenses of \$358 associated with MASSTrans membership for fiscal 2019 are deducted under 55009.

Expenses associated with 40710 Nontransportation Revenue of \$889 are subtracted out as ineligible under 56001 as it relates to motor pool expenses incurred.

Training expenses of \$1,709 reimbursed under revenue 41398 RTAP for fiscal 2019 are deducted under 57402.

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 \$150,813. The entire amount of \$150,813 was expensed on the books and is reported in 50220 Defined Benefit Pension. The Bus System paid (e.g., an out of pocket payment) \$61,297. Therefore, \$89,516 (pension expense of \$151,153 less the amount paid of \$61,297 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 \$5,138 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. DEFICIT UNRESTRICTED FUND NET POSITION

The Bus System reported a deficit unrestricted fund net position of \$495,959 and \$444,109 at September 30, 2019 and 2018, respectively.

12. SUBSEQUENT EVENT

In response to the continuing decline of Federal and State funding, a new millage rate of .60 was presented to voters on the August 2019 ballot. The new millage rate passed and is expected to generate approximately \$776,000 for the Bus System operations in fiscal year 2020.

Subsequent to September 30, 2019, the Bus System has contracted to replace the roof at the Bus System's administrative office. Construction is estimated to be complete by the spring of 2020. The estimated total cost of the roof is \$105,000 and will be purchased with State and Federal funds.

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the government's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the government for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the government's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.



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 Net Pension Liability and Related Ratios

	Fiscal Year Ended September 30,		
	2019	2018	2017
Total pension liability			
Service cost	\$ 42,458	\$ 44,897	\$ 56,836
Interest	207,302	205,650	270,324
Differences between expected and actual experience	(7,153)	(79,986)	(966,647)
Changes in assumptions	-	-	(3,562)
Benefit payments, including refunds of employee contributions	(160,548)	(136,852)	(181,958)
Other changes	-	-	-
Net change in total pension liability	82,059	33,709	(825,007)
Total pension liability, beginning of year	2,650,312	2,616,603	3,441,610
Total pension liability, end of year	2,732,371	2,650,312	2,616,603
Plan fiduciary net position			
Employer contributions	70,564	89,277	65,991
Employee contributions	3,507	4,540	-
Net investment income (loss)	(86,609)	269,486	270,030
Benefit payments, including refunds of employee contributions	(160,548)	(136,852)	(181,958)
Administrative expense	(4,334)	(4,266)	(5,230)
Differences between expected and actual experience	-	-	(702,680)
Net change in plan fiduciary net position	(177,420)	222,185	(553,847)
Plan fiduciary net position, beginning of year	2,260,953	2,038,768	2,592,615
Plan fiduciary net position, end of year	2,083,533	2,260,953	2,038,768
Bus System's net pension liability	\$ 648,838	\$ 389,359	\$ 577,835
Plan fiduciary net position as a percentage of total pension liability	76.3%	85.3%	77.9%
Covered payroll	\$ 522,360	\$ 530,661	\$ 694,798
Bus System's net pension liability as a percentage of covered payroll	124.2%	73.4%	83.2%

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.

Changes in assumptions. In 2017, the amounts reported as changes of assumptions resulted primarily due to the changes in asset smoothing. In 2016, the amounts reported as changes of assumptions resulted primarily due to adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of investment return, and changes in asset smoothing.



2016	2015
------	------

\$ 57,030	\$ 52,717
240,059	227,872
161,987	-
180,746	-
(159,593)	(110,465)
299	-
<u>480,528</u>	<u>170,124</u>
<u>2,961,082</u>	<u>2,790,958</u>
<u>3,441,610</u>	<u>2,961,082</u>

72,717	64,357
-	-
(40,348)	165,080
(159,593)	(110,465)
(5,928)	(6,065)
-	-
<u>(133,152)</u>	<u>112,907</u>
<u>2,725,767</u>	<u>2,612,860</u>
<u>2,592,615</u>	<u>2,725,767</u>
<u>\$ 848,995</u>	<u>\$ 235,315</u>

75.3%	92.1%
<u>\$ 710,949</u>	<u>\$ 625,094</u>

119.4%	37.6%
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OTSEGO COUNTY BUS SYSTEM

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

Schedule of the Bus System 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
2019	\$ 2,732,371	\$ 2,083,533	\$ 648,837	76.3%	\$ 522,360	124.2%
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 the Bus System 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
2019	\$ 45,281	\$ 61,294	(16,013)	\$ 539,924	11.4%
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	22 years
Asset valuation method	Open; 10 year smoothed market
Inflation	2.50%
Salary increases	3.75% in the long-term plus a percentage based on age-related scale to reflect merit, longevity and promotional pay increases.
Investment rate of return	7.75%. 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, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. These mortality tables were first used for the December 31, 2015 actuarial valuations. 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

Schedules of Local Revenues

Michigan Bureau of Passenger Transportation (BPT) Schedules

		Year Ended September 30, 2019	Year Ended September 30, 2018
40100	Passenger fares - demand responses	\$ 78,445	\$ 83,428
40400	Meal delivery program (Meals on Wheels)	-	26,624
40615	Advertising	5,138	4,675
40699	Other auxiliary transportation revenues	-	3,132
40710	Sale of maintenance services	3,702	13,341
40760	Gain from the sale of capital assets	3,051	-
40800	Taxes levied directly for transit agency	316,488	315,663
40950	Passenger fares - local service contract	170,343	168,256
40999	Other local contracts and reimbursements	-	7,935
41398	RTAP	1,709	-
44000	Refunds and credits	272	128
	Total	\$ 579,148	\$ 623,182

OTSEGO COUNTY BUS SYSTEM

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

	Year Ended September 30, 2019	Year Ended September 30, 2018
State of Michigan grants		
Michigan Department of Transportation (MDOT):		
Operating assistance (Act 51) 1994 (urban)	\$ 505,681	\$ 546,402
Capital assistance - federal	96,932	298,465
Capital assistance - state	<u>336,578</u>	<u>74,616</u>
Total passed through Michigan Department of Transportation (MDOT)	939,191	919,483
Federal grants		
U.S. Department of Transportation:		
Operating grant - Section 5311 Passed through MDOT	<u>224,709</u>	<u>258,567</u>
Total government operating grants	<u>\$ 1,163,900</u>	<u>\$ 1,178,050</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Revenue Report

Michigan Bureau of Passenger Transportation (BPT) Schedules
For the Year Ended September 30, 2019

Code	Description	Amount
401:	Farebox revenue	
40100	Passenger fares	\$ 78,445
406:	Auxiliary transportation revenues	
40615	Advertising	5,138
407:	NonTransportation revenues	
40710	Sales of maintenance services	3,702
40760	Sales of capital assets	3,051
408:	Local revenue	
40800	Taxes levied directly for/by transit agency	316,488
409:	Local revenue	
40950	Local service contract/local source (\$168,256 contractual fares)	170,343
411:	State formula and contracts	
41101	State operating assistance	493,874
413:	Federal contracts	
41301	Federal Section 5311 (operating funds only)	231,731
41398	RTAP	1,709
440:	Other revenue	
44000	Refunds and credits	<u>272</u>
	Total revenue for current year	1,304,753
	Adjustments to operating revenue based on prior years	
	State operating assistance	11,807
	Federal Section 5311 (operating funds only)	<u>(7,022)</u>
	Total revenue	<u>\$ 1,309,538</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Expense Report Michigan Bureau of Passenger Transportation (BPT) Schedules For the Year Ended September 30, 2019

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501:	Labor				
50101	Operators' salaries & wages	\$ 427,228	\$ -	\$ -	\$ 427,228
50102	Other salaries & wages	-	45,709	76,050	121,759
50103	Dispatchers' salaries & wages	113,973	-	-	113,973
502:	Fringe benefits				
50200	Fringe benefits	170,631	20,077	28,907	219,615
50210	Defined contribution pension	2,172	-	-	2,172
50220	Defined benefit pension	147,622	5,877	25,160	178,659
503:	Services				
50302	Advertising fees	-	-	3,432	3,432
50305	Audit cost	-	-	10,000	10,000
50399	Other services	5,594	4,752	100,189	110,535
504:	Materials and supplies				
50401	Fuel & lubricants	78,384	-	-	78,384
50402	Tires & tubes	3,052	-	-	3,052
50499	Other materials & supplies	31,564	5,287	3,183	40,034
505:	Utilities				
50500	Utilities	-	-	24,564	24,564
506:	Insurance				
50603	Other insurance	22,885	-	-	22,885
509:	Miscellaneous expenses				
50902	Travel & meetings and training	1,663	-	-	1,663
50903	Association dues and subscriptions	141	-	2,403	2,544
50999	Other misc expenses	889	-	-	889
513:	Depreciation				
51300	Depreciation	113,085	-	-	113,085
	Total operating expenses				<u>1,474,473</u>
540-580:	Ineligible expenses				
54000	Ineligible refunds and credits	272	-	-	272
55007	Ineligible depreciation	84,337	-	-	84,337
55009	Ineligible percent of association dues	-	-	358	358
56001	Ineligible expense associated with sale of maintenance service	889	-	-	889
57402	Ineligible RTAP	1,709	-	-	1,709
58020	Ineligible defined benefit pension	89,516	-	-	89,516
	Total ineligible expenses				<u>177,081</u>
	Total eligible expenses				<u>\$ 1,297,392</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Nonfinancial Report (Unaudited)

Michigan Bureau of Passenger Transportation (BPT) Schedules
For the Year Ended September 30, 2019

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle hours	21,912	532	16	22,460
611	Vehicle miles	246,806	7,307	48	254,161
615	Passengers - regular	16,121	914	683	17,718
616	Passengers - elderly	5,838	186	-	6,024
617	Passengers - persons with disabilities	31,396	424	6	31,826
618	Passengers - elderly person with disabilities	4,809	126	-	4,935
622	Total demand-response passengers	58,164	1,650	689	60,503
625	Days operated	239	52	2	293

Total passengers: 60,503

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, 2019

Miscellaneous Information

Code	Description	Quantity
660	Diesel/gasoline gallons consumed	36,736
661	Total transit agency employees (full-time equivalents)	18
662	Total revenue vehicle operators (full-time equivalents)	11
		concluded

OTSEGO COUNTY BUS SYSTEM

Operating Assistance Calculation

Michigan Bureau of Passenger Transportation (BPT) Schedules

For the Year Ended September 30, 2019

Nonurban

Total expenses	<u>\$ 1,474,473</u>
Less ineligible expenses:	
Refunds and credits	272
Depreciation	84,337
Lobbying expenses	358
RTAP	1,709
Local contracts	889
Defined benefit pension	<u>89,516</u>
Total ineligible expenses	<u>177,081</u>
Eligible expenses for state reimbursement	1,297,392
Reimbursement percentage	<u>38.0667%</u>
State operating assistance	493,874
Adjustment to prior year state receivable/payable	<u>11,807</u>
State operating assistance	<u>\$ 505,681</u>
Total state eligible expenses	\$ 1,297,392
Less additional federal ineligible expenses per MDOT Revenue and Expense Manual	<u>10,000</u>
Eligible expenses for federal reimbursement	1,287,392
Reimbursement percentage	<u>18.00%</u>
Federal section 5311 operating assistance	231,731
Adjustment to prior year federal receivable/payable	<u>(7,022)</u>
Federal section 5311 operating assistance	<u>\$ 224,709</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 30, 2020

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, 2019, 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 30, 2020.

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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2019-001 that we consider to be a material weakness.

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 it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, 2019

2019-001 - 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. During our audit, we identified and prosed several material adjustments (which were approved and posted by management) to adjust the Bus System's general ledger to the appropriate balances. These adjustments included entries to adjust federal and state revenue and receivables, record the disposal of an asset, and adjust pension expense.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be a part of the Client's internal control, to make adjustments to the general ledger and reconcile certain balance sheet accounts to their underlying detail.

Effect. As a result of this condition, the Bus System's accounting records were initially misstated by amounts material to the 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 recorded properly. The Bus System will continue to review all accounts, to the best of their ability, to ensure that all accounts are appropriately adjusted at year end. The Bus System will 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.

