

Otsego County Bus System

Years Ended
September 30,
2015 and 2014

Basic Financial
Statements

OTSEGO COUNTY BUS SYSTEM

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-7
Basic Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11-26
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	27
Schedule of the Net Pension Liability	28
Schedule of Contributions	29
Supplementary Information	
Michigan Bureau of Passenger Transportation (BPT) Schedules:	
Schedules of Local Revenues	30
Schedules of Expenditures of Federal and State Awards	31
Nonurban Regular Service Revenue Report	32
Nonurban Regular Service Expense Report	33
Nonurban Regular Service Nonfinancial Report	34-35
Operating Assistance Calculation	36
Internal Control over Financial Reporting	
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 <i>Government Auditing Standards</i>	37-38
Schedule of Findings and Responses	39-40
Summary Schedule of Prior Audit Findings	41



This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

March 31, 2016

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 the County of Otsego (the "County"), Michigan as of and for the years ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Bus System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements as of and for the year ended September 30, 2014. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Bus System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audit, the financial statements present fairly, in all material respects, the respective financial position of the Bus System as of September 30, 2015, and the respective changes in financial position and cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements of the Bus System for the year ended September 30, 2014 were audited by other auditors who expressed an unmodified opinion on those statements on November 25, 2014.

Reporting Entity

As discussed in Note 1, the financial statements present only the Bus System Enterprise Fund of the County of Otsego, Michigan and do not purport to, and do not, present fairly the financial position of the County, as of September 30, 2015 and 2014, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of GASB Statement No. 68

As described in Note 6, the Bus System implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position was restated. Our opinion is not modified with respect to this matter.

Other Matters

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 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 assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bus System's 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information on pages 30-33, and 36 has been subjected to the auditing procedures applied in the audit of the 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 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 34-35 has not been subjected to the auditing procedures applied in the audit of the 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 31, 2016, 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.

Rehmann Lohman LLC

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

The Management Discussion and Analysis (“MD&A”) presents a narrative overview and analysis of the financial activities of the Otsego County Bus System (the “Bus System”) for the year ended September 30, 2015. 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's net position decreased by \$447,176 from September 30, 2014 to September 30, 2015 or 42.2%. Factors most significant to this decrease are as follows:

- Operating revenues decreased \$52,458 or 13.5% attributable mainly to the loss of one contractual customer.
- Operating expenses decreased \$147,234 or 7.4% attributable mainly to a decrease in depreciation expense of \$47,543 and other expenses decreased by \$92,602. The net affect of the changes in operating revenues and expenses was a decrease in the operating loss of approximately \$94,776 when compared to the year ended September 30, 2014.
- Non-operating revenues decreased \$14,785 or 1.2%. The resulting change in net position was a decrease of \$315,119 which is improved from the year ended September 30, 2014 when the decrease in net position was \$394,780.
- The resulting change in net position was a decrease of \$314,789 which is improved from the year ended September 30, 2014 when the decrease in net position was \$394,780.
- The prior period adjustment to net position resulted in a decrease in beginning net position of \$132,387 from the recording of the beginning balance of the net pension liability required to implement GASB 68.

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 three 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 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 2015 and 2014. 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 and member appropriations.

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 compliance information provides data related to the basic transportation services provided.

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

Proprietary Fund Statement

The Bus System is accounted for as a proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the financial statements. The County/Bus System uses the proprietary fund to account for its transportation operations.

Net Position

The Bus System's total net position at September 30, 2015 was \$611,025, a decrease of \$447,506 or 42.3% from September 30, 2014. Total assets decreased \$273,354 or 23.9% and total liabilities increased \$258,076 or 310.6%. The following table shows, in a condensed format, the net position as of September 30, 2015 and 2014.

	Net Position		
	As of September 30,		% Change
	2015	2014	
Assets			
Current assets and other assets	\$ 118,069	\$ 174,603	-32.4%
Capital assets, net	750,527	967,017	-22.4%
Total assets	868,596	1,141,620	-23.9%
Deferred outflows of resources	83,924	-	-
Liabilities			
Current liabilities	105,850	83,089	42.3%
Long-term debt	235,315	-	-
	341,165	83,089	310.6%
Net position:			
Net investment in capital assets	750,527	967,017	-22.4%
Unrestricted (deficit)	(139,172)	91,514	-252.1%
Total net position	\$ 611,355	\$ 1,058,531	-42.2%

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

The following table shows the changes in net position for the year ended September 30, 2015 and 2014:

	Changes in Net Position		
	For the Year Ended September 30,		% Change
	2015	2014	
Operating revenues			
Charges for services	\$ 336,031	\$ 388,489	-13.5%
Operating expenses			
Salaries and wages	1,265,053	1,272,142	-0.5%
Depreciation	203,421	250,964	-18.9%
Other	381,931	474,533	-19.5%
Total operating expenses	1,850,405	1,997,639	-6.8%
Operating loss	(1,514,374)	(1,609,150)	5.2%
Nonoperating revenues			
Taxes levied for transit	285,647	282,973	0.9%
Government operating grants	866,496	908,107	-4.6%
Other	47,442	23,290	103.7%
Total nonoperating revenues	1,199,585	1,214,370	-0.1%
Change in net position	(314,789)	(394,780)	-20.9%
Net position, beginning of year	1,058,531	1,661,920	-36.3%
Prior period adjustment			
Restate beginning accumulated depreciation	-	(208,609)	-
Record beginning net pension liability	(132,387)	-	-
Net position, beginning of year, as restated	926,144	1,453,311	63.7%
Total net position, ending	\$ 611,355	\$ 1,058,531	-41.9%

Capital Asset and Debt Administration

The Authority 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)	
	2015	2014
Land	\$ 99,998	\$ 99,998
Building	299,790	337,792
Vehicles	350,739	529,227
Total	\$ 750,527	\$ 967,017

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

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

The District's long-term debt consists of accrued compensated absences and the net pension liability. More detailed information regarding the Bus Systems long-term liabilities can be found in Note 5 and 6 to the financial statements.

Economic Factors and Next Year's Budget

The 2016 budget was projected comparable to the 2015 budget with an increase in payroll due to a 2% cost-of-living increase. 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 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 Theron Higgins, Transportation Manager of the Otsego County Bus System's office at 1254 Energy Drive, Gaylord, Michigan 49735.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

OTSEGO COUNTY BUS SYSTEM

Statements of Net Position

	September 30,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,347	\$ 79,372
Accounts receivable	18,746	14,348
Due from federal government	14,821	3,974
Due from state government	61,155	76,909
Total current assets	<u>118,069</u>	<u>174,603</u>
Noncurrent assets:		
Capital assets not being depreciated	99,998	99,998
Capital assets being depreciated, net	650,529	867,019
Total noncurrent assets	<u>750,527</u>	<u>967,017</u>
Total assets	<u>868,596</u>	<u>1,141,620</u>
Deferred outflows of resources		
Deferred pension amounts	<u>83,924</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	12,913	20,313
Accrued payroll	28,859	26,578
Compensated absences	39,078	36,198
Due to County of Otsego	25,000	-
Total current liabilities	<u>105,850</u>	<u>83,089</u>
Long-term liabilities:		
Net pension liability	<u>235,315</u>	<u>-</u>
Total liabilities	<u>341,165</u>	<u>83,089</u>
Net position		
Net investment in capital assets	750,527	967,017
Unrestricted (deficit)	<u>(139,172)</u>	<u>91,514</u>
Total net position	<u>\$ 611,355</u>	<u>\$ 1,058,531</u>

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

OTSEGO COUNTY BUS SYSTEM

Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended September 30,	
	2015	2014
Operating revenues		
Fares - demand responses	\$ 106,675	\$ 110,595
Fares - contractual	197,276	248,488
Meals on Wheels	32,080	29,406
Total operating revenues	<u>336,031</u>	<u>388,489</u>
Operating expenses		
Salaries and fringes	1,265,053	1,272,142
Depreciation	203,421	250,964
Other	381,931	474,533
Total operating expenses	<u>1,850,405</u>	<u>1,997,639</u>
Operating loss	<u>(1,514,374)</u>	<u>(1,609,150)</u>
Nonoperating revenues (expenses)		
Taxes levied for transit	285,647	282,973
Government operating grants:		
Federal (US DOT Operating Grant (Section 5311))	269,951	277,394
State (Local Bus Operating Assistance (Act 51))	596,545	630,713
Motor pool	12,306	19,500
Nontransportation revenue	1,950	3,790
Gain on disposal of vehicles	11,905	-
Other local contracts and reimbursements	21,281	-
Total nonoperating revenues	<u>1,199,585</u>	<u>1,214,370</u>
Change in net position	<u>(314,789)</u>	<u>(394,780)</u>
Net position, beginning of year	<u>1,058,531</u>	<u>1,661,920</u>
Prior period adjustments		
Restate beginning accumulated depreciation	-	(208,609)
Record beginning net pension liability	<u>(132,387)</u>	<u>-</u>
Net position, beginning of year, as restated	<u>926,144</u>	<u>1,453,311</u>
Net position, end of year	<u>\$ 611,355</u>	<u>\$ 1,058,531</u>

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

OTSEGO COUNTY BUS SYSTEM

Statements of Cash Flows

	For the Year Ended September 30,	
	2015	2014
Cash flows from operating activities		
Receipts from operations	\$ 331,633	\$ 383,477
Payments to suppliers	(389,331)	(479,582)
Payments to or on behalf of employees	(1,240,888)	(1,261,189)
Net cash used in operating activities	<u>(1,298,586)</u>	<u>(1,357,294)</u>
Cash flows from noncapital financing activities		
Taxes levied for transit	285,647	282,973
Federal operating grants	259,104	213,885
State of Michigan grants	612,299	739,145
Advance from County	25,000	-
Local nonoperating receipts	1,950	3,790
Motor pool receipts	12,306	19,500
Local contracts and reimbursement receipts	21,281	-
Insurance proceeds	24,974	-
Net cash provided by noncapital financing activities	<u>1,242,561</u>	<u>1,259,293</u>
Net change in cash and cash equivalents	<u>(56,025)</u>	<u>(98,001)</u>
Cash and cash equivalents, beginning of year	<u>79,372</u>	<u>177,373</u>
Cash and cash equivalents, end of year	<u>\$ 23,347</u>	<u>\$ 79,372</u>

continued...

OTSEGO COUNTY BUS SYSTEM

Statements of Cash Flows

	For the Year Ended September 30,	
	2015	2014
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,514,374)	\$ (1,609,150)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	203,421	250,964
Changes in assets and liabilities:		
Accounts Receivable	(4,398)	(5,012)
Accounts payable	(7,400)	(5,049)
Accrued payroll	2,281	2,444
Net pension liability and related deferred amounts	19,004	-
Compensated absences	2,880	8,509
Net cash used in operating activities	<u>\$ (1,298,586)</u>	<u>\$ (1,357,294)</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 Fund's net position, changes in net position and cash flows. They do not purport to, and do not present fairly, the net position of Otsego County and changes in its net position and 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 an enterprise fund of the County.

The Bus System accounts for the expenditures of Michigan Transportation Fund and Federal Transportation Fund monies 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.

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.

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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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, liabilities, deferred outflows of resources, deferred inflows of resources, and equity

Deposits and investments

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

State statutes authorize the Bus System to invest in:

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Capital assets

Capital assets, which include land, buildings and vehicles 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 fair value 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
Vehicles	3-7

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Bus System reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided to its pension plan. More detailed information can be found in Note 6.

Payables

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

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 52.5 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 upon termination. Accumulated vacation and sick leave at each year end will be paid from current financial resources and is therefore recorded as a current liability.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows 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 2014 taxable valuation of Otsego County property amounted to \$1,141,288,013 on which ad valorem taxes of .25000 for the Bus System were levied in the amount of approximately \$285,000.

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.

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 9.

Fiscal Year

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

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

2. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit balances as of September 30, 2015 and 2014:

	2015	2014
Statement of net position:		
Cash and cash equivalents	<u>\$ 23,347</u>	<u>\$ 79,372</u>
Deposits:		
Pooled cash with Otsego County	\$ 23,147	\$ 79,172
Cash on hand	<u>200</u>	<u>200</u>
Total	<u>\$ 23,347</u>	<u>\$ 79,372</u>

Deposit and Investment Risk

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

3. DUE FROM OTHER GOVERNMENTAL UNITS

Due from 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 2015	Non-Urban 2014
Net eligible expenses	\$ 1,636,065	\$ 1,733,713
Funding rate	<u>16.50%</u>	<u>16.00%</u>
Section 5311 revenue	269,951	277,394
Funding received	<u>(203,226)</u>	<u>(197,576)</u>
Due from Federal government - current year	66,725	79,818
Due to Federal government - prior years	-	(59,535)
Prior years payments received in current year	(55,878)	(87,710)
Prior years advance adjustment	-	71,401
Due from federal government - prior years	<u>3,974</u>	<u>-</u>
Total due from federal government	<u>\$ 14,821</u>	<u>\$ 3,974</u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Due from State of Michigan

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

	Non-Urban 2015	Non-Urban 2014
Net eligible expenses	\$ 1,641,565	\$ 1,739,213
Funding rate	36.3400%	36.2643%
Section 5311 revenue	596,545	630,713
Funding received	(556,588)	(667,744)
Due from (to) State - current year	39,957	(37,031)
Due from State - prior years	76,909	185,341
Prior years payments received in current year	(55,711)	-
Prior year advance adjustment	-	(71,401)
Total due from state government	<u>\$ 61,155</u>	<u>\$ 76,909</u>

4. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2015 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	1,935,262	-	(960,630)	974,632
Equipment	187,233	-	(187,233)	-
Total capital assets being depreciated	<u>2,882,528</u>	<u>-</u>	<u>(1,147,863)</u>	<u>1,734,665</u>
Less accumulated depreciation for:				
Buildings	(422,241)	(38,002)	-	(460,243)
Vehicles	(1,406,035)	(165,419)	947,561	(623,893)
Equipment	(187,233)	-	187,233	-
Total accumulated depreciation	<u>(2,015,509)</u>	<u>(203,421)</u>	<u>1,134,794</u>	<u>(1,084,136)</u>
Total capital assets being depreciated, net	<u>867,019</u>	<u>(203,421)</u>	<u>(13,069)</u>	<u>650,529</u>
Total capital assets, net	<u>\$ 967,017</u>	<u>\$ (203,421)</u>	<u>\$ (13,069)</u>	<u>\$ 750,527</u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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

	Purchased with Bus System Funds	Purchased with Capital Grants	Total
Land	\$ 73,337	\$ 26,661	\$ 99,998
Buildings	500,088	259,945	760,033
Vehicles	-	974,632	974,632
Total capital assets being depreciated	500,088	1,234,577	1,734,665
Less total accumulated depreciation	(326,772)	(757,364)	(1,084,136)
Total capital assets being depreciated, net	173,316	477,213	650,529
Total capital assets, net	\$ 246,653	\$ 503,874	\$ 750,527

Capital assets activity for the year ended September 30, 2014 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	1,935,262	-	-	1,935,262
Equipment	187,233	-	-	187,233
Total capital assets being depreciated	2,882,528	-	-	2,882,528
Less accumulated depreciation for:				
Buildings	(384,239)	(38,002)		(422,241)
Vehicles	(984,464)	(212,962)	208,609	(1,406,035)
Equipment	(187,233)	-	-	(187,233)
Total accumulated depreciation	(1,555,936)	(250,964)	208,609	(2,015,509)
Total capital assets being depreciated, net	1,326,592	(250,964)	208,609	867,019
Total capital assets, net	\$ 1,426,590	\$ (250,964)	\$ 208,609	\$ 967,017

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

	Purchased with Bus System Funds	Purchased with Capital Grants	Total
Land	\$ 73,337	\$ 26,661	\$ 99,998
Buildings	500,088	259,945	760,033
Vehicles	177,850	1,757,412	1,935,262
Equipment	176,733	10,500	187,233
Total capital assets being depreciated	854,671	2,027,857	2,882,528
Less total accumulated depreciation	(530,945)	(1,484,564)	(2,015,509)
Total capital assets being depreciated, net	323,726	543,293	867,019
Total capital assets, net	\$ 397,063	\$ 569,954	\$ 967,017

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

5. COMPENSATED ABSENCES

Compensated absence activity is as follows for the year ended September 30:

	2015	2014
Balance, beginning of year	\$ 36,198	\$ 27,689
Additions	74,766	72,585
Reductions	<u>(71,886)</u>	<u>(64,076)</u>
Balance, end of year	<u>\$ 39,078</u>	<u>\$ 36,198</u>

6. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

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

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 or 5 year period) and multipliers ranging from 1.0% to 2.0%. 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, 2014, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>21</u>
Total membership	<u><u>47</u></u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Contributions. The County 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	\$ 5,029	0%
Teamsters Bus	Hybrid Plan	Open	8.01%	0%

Net Pension Liability. The Bus System's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016 respectively)
Investment rate of return	8.25%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 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.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate
Global equity	57.5%	5.02%	2.89%
Global fixed income	20.0%	2.18%	0.44%
Real assets	12.5%	4.23%	0.53%
Diversifying strategies	<u>10.0%</u>	6.56%	0.64%
	<u>100.0%</u>		
Inflation			3.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.25%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2014. 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 pensions 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 (a) - (b)
Balances at December 31, 2013	\$ 2,790,958	\$ 2,612,860	\$ 178,098
Changes for the year:			
Service cost	52,717	-	52,717
Interest	227,872	-	227,872
Employer contributions	-	64,357	(64,357)
Employee contributions	-	-	-
Net investment income	-	165,080	(165,080)
Benefit payments, including refunds of employee contributions	(110,465)	(110,465)	-
Administrative expense	-	(6,065)	6,065
Net changes	<u>170,124</u>	<u>112,907</u>	<u>57,217</u>
Balances at December 31, 2014	<u>\$ 2,961,082</u>	<u>\$ 2,725,767</u>	<u>\$ 235,315</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 8.25%, as well as what the Bus System's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Bus System's net pension liability	\$ 308,080	\$ 235,315	\$ 265,647

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 Related to Pensions

For the year ended December 31, 2014, the Bus System recognized pension expense of \$83,589. 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
Net difference between projected and actual earnings on pension plan investments	\$ 38,663	\$ -	\$ 38,663
Contributions subsequent to the measurement date	45,261	-	45,261
Total	\$ 83,924	\$ -	\$ 83,924

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, 2016. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended	Amount
2015	\$ 9,666
2016	9,666
2017	9,666
2018	9,665
Total	\$ 38,663

7. RISK MANAGEMENT

The Bus System is included with the County provisions for risk management. The following County provisions apply to the calendar year ended December 31, 2014.

The Bus System is exposed to various risks of loss related to assets; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The County 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 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.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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 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 fund 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 County 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, 2014, the balance of the County's member retention was \$249,263.

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 is included 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.

At December 31, 2014 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

8. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal 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.

9. 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, 2015, the Bus System did not share space with any other organization.

10. 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 29-31 of this report. These schedules include eligible expenses to be reimbursed with state funds that have been appropriate for mass transit operating assistance under Act 51. The schedules also detail ineligible expenses that cannot be reimbursed. The supplemental schedules detail any Section 5311 (capital funding) and any other grant funding used to pay operating expenses and either subtracts them out as ineligible or does not include them in the total expenses to be reimbursed.

Eligible depreciation includes assets purchased with local funds prior to 2007. Since 2007, the Bus System has not purchased any assets with local funds. The depreciation of any future assets purchased with local funds will not be included in eligible depreciation unless the useful life of the asset is approved by the BPT. Eligible depreciation for 2015 amounted to \$26,981; therefore \$176,440 was deducted as ineligible.

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

Expenses associated with 40710 Nontransportation Revenue of \$12,306 are subtracted out as ineligible as it relates to motor pool expenses incurred. In addition, there were no expenses associated with 40615 Auxiliary Transportation Revenue to be subtracted out as ineligible since no new advertising materials on Bus System vehicles and property were put into place during the fiscal year. The advertising revenue of \$1,950 includes payment of continuing advertising contracts.

11. NONFINANCIAL DATA

The methodology used for compiling mileage on OAR Schedule 3N (NonUrban) is an adequate and reliable method for recording vehicle mileage.

OTSEGO COUNTY BUS SYSTEM

■ Notes to Financial Statements

12. RESTATEMENTS

During the year ended September 30, 2015, the Bus System adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, beginning net position decreased by \$132,387.

During the year ended September 30, 2014, a prior period adjustment to restate beginning net position of \$208,609 was needed to adjust actual accumulated depreciation.

13. SUBSEQUENT EVENT

The Bus System received a \$25,000 advance from the County for working capital during fiscal 2015. Subsequent to year end, the County advanced an additional \$125,000. The entire advance is anticipated to be repaid with fiscal 2016 revenues.



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

	Year Ended September 30, 2015
Total pension liability	
Service cost	\$ 52,717
Interest	227,872
Benefit payments, including refunds of employee contributions	(110,465)
Net change in total pension liability	170,124
Total pension liability, beginning of year	2,790,958
Total pension liability, end of year	<u>\$ 2,961,082</u>
Plan fiduciary net position	
Employer contributions	\$ 64,357
Employee contributions	-
Net investment income	165,080
Benefit payments, including refunds of employee contributions	(110,465)
Administrative expense	(6,065)
Net change in plan fiduciary net position	112,907
Plan fiduciary net position, beginning of year	2,612,860
Plan fiduciary net position, end of year	<u>\$ 2,725,767</u>
Bus System's net pension liability	<u>\$ 235,315</u>
Plan fiduciary net position as a percentage of total pension liability	92.1%
Covered-employee payroll	<u>\$ 625,094</u>
Bus System's net pension liability as a percentage of covered-employee payroll	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-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
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-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
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 December 31, 2014
 Notes 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, closed
Remaining amortization period	24 years
Asset valuation method	10 year
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.0%, net of investment expense and 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

Schedules of Local Revenues

For the Years Ended September 30, 2015 and 2014

	2015	2014
40100 Fares - demand responses	\$ 106,675	\$ 110,595
40200 Fares - contractual	197,276	248,488
40400 Meals on Wheels	32,080	29,406
40615 Nontransportation revenue	1,950	3,790
40100 Motor pool	12,306	19,500
40800 Taxes levied for transit	285,647	282,973
40799 Gain on disposal of vehicles	11,905	-
40999 Other local contracts and reimbursements	21,281	-
Total	<u>\$ 669,120</u>	<u>\$ 694,752</u>

OTSEGO COUNTY BUS SYSTEM

Schedules of Expenditures of Federal and State Awards For the Years Ended September 30, 2015 and 2014

	2015	2014
State of Michigan operating grants:		
Michigan Department of Transportation		
Operating grant (Act 51) 1994 (urban)	\$ 596,545	\$ 630,713
Federal operating grants:		
U.S. Department of Transportation, operating grant - Section 5311		
Passed through MDOT	<u>269,951</u>	<u>277,394</u>
Total government operating grants	<u>\$ 866,496</u>	<u>\$ 908,107</u>

This schedule is prepared using the accrual basis of accounting,

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Revenue Report

For the Year Ended September 30, 2015

Code	Description	Amount
401:	Farebox revenue	
40100	Passenger fares	\$ 106,675
40200	Contract fares	197,276
40400	Package delivery/meal delivery programs	32,080
406:	Auxiliary transportation revenues	
40615	Advertising	1,950
407:	NonTransportation revenues	
40710	Sales of maintenance services	12,306
40799	Other nontransportation revenues (gain on disposal of capital asset)	11,905
408:	Local revenue	
40800	Taxes levied directly for/by transit agency	285,647
409:	Local revenue	
40900	Other local contracts and reimbursements	21,281
411:	State formula and contracts	
401101	State operating assistance	596,545
413:	Federal contracts	
41301	Federal Section 5311 (operating funds only)	269,951
Total revenue		<u>\$ 1,535,616</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Expense Report For the Year Ended September 30, 2015

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501:	Labor				
50101	Operators salaries & wages	\$ 529,895	\$ -	\$ -	\$ 529,895
50102	Other salaries & wages	-	83,857	132,939	216,796
50103	Dispatchers' salaries & wages	132,265	-	-	132,265
502:	Fringe benefits				
50200	Other fringe benefits	204,017	41,528	56,963	302,508
50201	Pension	63,594	7,754	12,241	83,589
503:	Services				
50302	Advertising fees	-	-	2,799	2,799
50305	Audit cost	-	-	5,500	5,500
50399	Other services	4,525	6,582	69,570	80,677
504:	Materials and supplies				
50401	Fuel & lubricants	125,821	-	-	125,821
50402	Tires and tubes	10,321	65	-	10,386
50499	Other materials and supplies	62,858	13,492	6,785	83,135
505:	Utilities				
50500	Utilities	-	-	39,033	39,033
506:	Insurance				
50603	Other insurance	33,376	-	-	33,376
507:	Taxes & fees				
50700	Taxes & fees	354	-	-	354
509:	Misc. expenses				
50902	Travel, meetings & training	-	100	-	100
50999	Other misc expenses	-	750	-	750
513:	Depreciation				
51300	Depreciation	203,421	-	-	203,421
	Total operating expenses				<u>1,850,405</u>
550:	Ineligible expenses				
55007	Ineligible depreciation	176,439	-	-	176,439
55008	Other ineligible expenses				
	CAP APPROVED: 7,554 miles x \$3.3	24,092	-	-	24,092
560:	Ineligible expenses				
56001	Ineligible expenses associated with sale of maintenance service	8,309	-	-	8,309
580:	Ineligible expenses				
	Total ineligible expenses				<u>208,840</u>
	Total eligible expenses				<u>\$ 1,641,565</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Nonfinancial Report

For the Year Ended September 30, 2015
(Unaudited)

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle hours	29,888	695	16	30,599
611	Vehicle miles	436,240	10,002	61	446,303
615	Passengers - regular	25,823	1,631	1,064	28,518
616	Passengers - elderly	9,140	354	-	9,494
617	Passengers - persons with disabilities	45,680	341	-	46,021
618	Passengers - elderly person with disabilities	6,324	223	-	6,547
622	Total demand- response passengers	86,967	2,549	1,064	90,580
625	Days operated	248	48	1	297

Total passengers: 106,033

Vehicle Information

Code	Description	Quantity
655	Total demand-response vehicles	21
656	Demand-response vehicle with lifts	19
658	Total transit vehicles	21

Total vehicles: 25

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Nonfinancial Report

For the Year Ended September 30, 2015

(Unaudited)

Miscellaneous Information

Code	Description	Quantity
660	Diesel/gasoline gallons consumed	55,009
661	Total transit agency employees (full-time equivalents)	27
662	Total revenue vehicle operators (full-time equivalents)	19
801	Property Damage Only (PDO) Accidents w/damage equal to or greater than	1
802	PDO Accidents w/damage equal to or greater than \$25,000	1
803	Injuries	1

OTSEGO COUNTY BUS SYSTEM

Operating Assistance Calculation For the Year Ended September 30, 2015

	Nonurban
Total expenses	\$ 1,850,405
Less ineligible expenses:	
Depreciation	\$ 176,439
Local contracts	24,092
Motor pool expenses	8,309
Total ineligible expenses	208,840
Total state eligible expenses	\$ 1,641,565
Eligible expenses for state reimbursement	\$ 1,641,565
Reimbursement percentage	36.34%
State operating assistance	\$ 596,545
Total federal eligible expenses	
Less additional federal ineligible expenses per A-87 audit costs	\$ 5,500
Eligible expenses for federal reimbursement	\$ 1,636,065
Reimbursement percentage	16.50%
Federal section 5311 operating assistance	\$ 269,951

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 31, 2016

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 Otsego County, Michigan, as of and for the year ended September 30, 2015, 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 31, 2016.

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 were not 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 accompanying schedule of findings and responses as items 2015-001 and -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.

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 cursive script that reads "Rehmann Lobson LLC".

OTSEGO COUNTY BUS SYSTEM

Schedule of Findings and Responses

For the Year Ended September 30, 2015

2015-001 - 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 the capital assets, accumulated depreciation and due from other governmental units subsidiary ledgers to the general ledger on a regular basis. We identified and proposed material adjustments (which were approved and posted by management) to the Bus System's accounting records.

Cause. This condition was caused by the absence of a standard procedure for reconciling the Bus System's capital assets, accumulated depreciation and due from other governmental units accounts.

Effect. As a result of this condition, the Bus System's financial information was 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 strongly 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 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 recommend the necessary adjustments. 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, 2015

2015-002 - Preparation of GAAP-Basis Financial Statements

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. 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 on internal control and compliance in accordance with *Government Auditing Standards*. Therefore, no specific corrective action is required at this time. The Bus System should consider appropriate training for the accounting personnel to assist them in identifying and recording all of the necessary journal entries at yearend to arrive at a reasonably adjusted trial balance to be used for the preparation of the yearend financial statements.

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



OTSEGO COUNTY BUS SYSTEM

Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2015

Finding 2014-001 - Balance Sheet Reconciliation

The Bus System does not properly reconcile its balance sheet accounts including: due from other governmental units, capital assets and accumulated depreciation. This matter was repeated as finding 2015-001.

Finding 2014-002 - Material Audit Adjustments

Material journal entries in the areas of capital assets and due from other governmental units were proposed by the auditors. These adjustments were not detected by the Bus System's internal control over financial reporting. These entries were subsequently recorded in the general ledger. This matter was repeated as finding 2015-001.

