

Otsego County Bus System

Years Ended
September 30,
2016 and 2015

Financial
Statements

OTSEGO COUNTY BUS SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 14, 2017

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

We have audited the accompanying financial statements of the *Otsego County Bus System* (the "Bus System"), an enterprise fund of Otsego County, Michigan, (the "County") as of and for the years ended September 30, 2016 and 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bus System, as of September 30, 2016 and 2015, 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 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, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bus System's basic financial statements. The 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 29-32, and 35 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 33-34 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 14, 2017, 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) presents a narrative overview and analysis of the financial activities of the Otsego County Bus System (the “Bus System”) for the year ended September 30, 2016, and 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 was \$242,206, a decrease of \$369,149 from September 30, 2015 to September 30, 2016 or 60.4%. Factors most significant to this decrease are as follows:

- Operating revenues increased approximately \$6,000 or 1.7%.
- Operating expenses increased approximately \$104,000 or 5.6%.
- Non-operating revenues increased approximately \$31,000 or 2.6%.

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 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 2016 and 2015. 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 other supplementary information provides data related to the basic transportation services provided.

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 Bus System uses the proprietary fund to account for its transportation operations.

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

Net Position

The Bus System's total net position at September 30, 2016 was \$242,206, a decrease of \$369,149 or 60.4% from September 30, 2015. Total assets decreased \$184,262, or 21.2%, and total liabilities increased \$645,184, or 189.1%. The following table shows, in a condensed format, the statements of net position:

	Net Position		
	As of September 30,		
	2016	2015	2014
Assets			
Current and other assets	\$ 90,986	\$ 118,069	\$ 174,603
Capital assets, net	593,348	750,527	967,017
Total assets	<u>684,334</u>	<u>868,596</u>	<u>1,141,620</u>
Deferred outflows of resources	<u>544,221</u>	<u>83,924</u>	<u>-</u>
Liabilities			
Current liabilities	137,354	105,850	83,089
Long-term debt	848,995	235,315	-
Total liabilities	<u>986,349</u>	<u>341,165</u>	<u>83,089</u>
Net position:			
Net investment in capital assets	593,348	750,527	967,017
Unrestricted deficit	(351,142)	(139,172)	91,514
Total net position	<u>\$ 242,206</u>	<u>\$ 611,355</u>	<u>\$ 1,058,531</u>

The largest component of the Bus System's net position reflects its investment in capital assets (e.g. land, buildings, vehicles and equipment).

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,		
	2016	2015	2014
Operating revenues			
Charges for services	\$ 341,872	\$ 336,031	\$ 388,489
Operating expenses			
Salaries and wages	1,450,700	1,265,053	1,272,142
Depreciation	165,226	203,421	250,964
Other	338,841	381,931	474,533
Total operating expenses	1,954,767	1,850,405	1,997,639
Operating loss	(1,612,895)	(1,514,374)	(1,609,150)
Nonoperating revenues			
Taxes levied for transit	284,610	285,647	282,973
Government operating grants	937,182	866,496	908,107
Other	8,954	47,442	23,290
Total nonoperating revenues	1,230,746	1,199,585	1,214,370
Change in net position before transfers	(382,149)	(314,789)	(394,780)
Transfers	13,000	-	-
Change in net position	(369,149)	(314,789)	(394,780)
Net position			
Beginning of year	611,355	1,058,531	1,661,920
Restatement	-	(132,387)	(208,609)
End of year	\$ 242,206	\$ 611,355	\$ 1,058,531

The Bus System revenues and transfers increased approximately \$50,000 from \$1,535,616 in fiscal 2015 to \$1,585,618 in fiscal 2016 attributable mainly to an increase in state and federal department of transportation operating grants. The expenses increased approximately \$104,000 from \$1,850,405 in 2015 to \$1,954,767 in fiscal 2016. This change consisted mainly of an increase in pension costs of approximately \$163,000 and an increase in health insurance costs of approximately \$11,000. This increase was offset mainly by reduced fuel costs of approximately \$38,000 and a reduction in depreciation of approximately \$38,000. The revenue decreased approximately \$67,000 from \$1,602,859 to \$1,533,616 attributable primarily to the loss of a significant contract with a customer in the amount of approximately \$51,000 and an approximate \$42,000 decrease in federal and state grants offset by insurance proceeds of approximately \$24,000 received from accidents resulting in damages of two busses. Expenses decreased from \$1,997,639 in 2014 to 1,850,405 in 2015. This decrease of approximately \$147,000 was attributable mainly to a decrease of approximately of \$71,000 in fuel costs resulting from a drop in fuel prices, a \$30,000 reduction in supplies used and a \$47,000 decrease in depreciation.

OTSEGO COUNTY BUS SYSTEM

Management's Discussion and Analysis

Capital Asset and Debt Administration

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)	
	2016	2015
Land	\$ 99,998	\$ 99,998
Building	261,789	299,790
Vehicles	224,319	350,739
Equipment	7,242	-
Total capital assets, net	\$ 593,348	\$ 750,527

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

The District's long-term liabilities consist of the net pension liability. More detailed information regarding the Bus System's long-term liabilities can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The 2017 budget was projected comparable to the 2016 budget with an increase in payroll attributable to a 2% cost-of-living increase. The Bus System revenue levels will continue to be mainly dependent upon Federal and State grants. The property tax allocation and local charges for services are both anticipated to remain stable. Expenses are anticipated to increase attributable to cost of living salary increases and increases in other payroll related benefits. The Bus System will continue to operate as it has with a slow growth operational mindset to ensure the economic problems within our state and federal funding do not have an impact on the services we are currently providing.

Contacting the Bus System's Financial Management

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

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BASIC FINANCIAL STATEMENTS

OTSEGO COUNTY BUS SYSTEM

Statements of Net Position

	September 30,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,102	\$ 23,347
Accounts receivable	25,719	18,746
Due from federal government	35,165	14,821
Due from state government	-	61,155
Total current assets	<u>90,986</u>	<u>118,069</u>
Noncurrent assets:		
Capital assets not being depreciated	99,998	99,998
Capital assets being depreciated, net	493,350	650,529
Total noncurrent assets	<u>593,348</u>	<u>750,527</u>
Total assets	<u>684,334</u>	<u>868,596</u>
Deferred outflows of resources		
Deferred pension amounts	<u>544,221</u>	<u>83,924</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	80,579	80,850
Due to state government	26,775	-
Due to other funds	30,000	25,000
Total current liabilities	<u>137,354</u>	<u>105,850</u>
Noncurrent liabilities:		
Net pension liability	<u>848,995</u>	<u>235,315</u>
Total liabilities	<u>986,349</u>	<u>341,165</u>
Net position		
Net investment in capital assets	593,348	750,527
Unrestricted deficit	<u>(351,142)</u>	<u>(139,172)</u>
Total net position	<u>\$ 242,206</u>	<u>\$ 611,355</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,	
	2016	2015
Operating revenues		
Fares - demand responses	\$ 104,064	\$ 106,675
Fares - contractual	204,445	197,276
Meals on Wheels	33,363	32,080
Total operating revenues	<u>341,872</u>	<u>336,031</u>
Operating expenses		
Salaries and fringes	1,450,700	1,265,053
Depreciation	165,226	203,421
Other	338,841	381,931
Total operating expenses	<u>1,954,767</u>	<u>1,850,405</u>
Changes in net position before transfers	<u>(1,612,895)</u>	<u>(1,514,374)</u>
Nonoperating revenues		
Taxes levied for transit	284,610	285,647
Government operating grants:		
Federal (US DOT Operating Grant (Section 5311))	318,587	269,951
State (Local Bus Operating Assistance (Act 51))	618,595	596,545
Motor pool	6,942	12,306
Nontransportation revenue	1,992	1,950
Gain on disposal of vehicles	-	11,905
Other local contracts and reimbursements	20	21,281
Total nonoperating revenues	<u>1,230,746</u>	<u>1,199,585</u>
Change in net position before transfers	<u>(382,149)</u>	<u>(314,789)</u>
Transfers in	<u>13,000</u>	<u>-</u>
Change in net position	<u>(369,149)</u>	<u>(314,789)</u>
Net position, beginning of year	611,355	1,058,531
Restatement for the net pension liability	-	<u>(132,387)</u>
Net position, beginning of year, as restated	<u>-</u>	<u>926,144</u>
Net position, end of year	<u>\$ 242,206</u>	<u>\$ 611,355</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,	
	2016	2015
Cash flows from operating activities		
Cash received from customers	\$ 334,899	\$ 331,633
Cash paid to suppliers	(342,923)	(389,331)
Cash paid to or on behalf of employees	(1,293,506)	(1,240,888)
Net cash used in operating activities	<u>(1,301,530)</u>	<u>(1,298,586)</u>
Cash flows from noncapital financing activities		
Taxes levied for transit	284,610	285,647
Federal operating grants	298,243	259,104
State of Michigan grants	706,525	612,299
Cash advance from other funds	150,000	25,000
Repayment of cash advance from other funds	(145,000)	-
Local nontransportation receipts	1,992	1,950
Motor pool receipts	6,942	12,306
Operating transfer in	13,000	-
Local contracts and reimbursement receipts	20	21,281
Insurance proceeds	-	24,974
Net cash provided by noncapital financing activities	<u>1,316,332</u>	<u>1,242,561</u>
Cash flows used in capital financing activities		
Purchase of capital assets	<u>(8,047)</u>	<u>-</u>
Net change in cash and cash equivalents	6,755	(56,025)
Cash and cash equivalents, beginning of year	<u>23,347</u>	<u>79,372</u>
Cash and cash equivalents, end of year	<u>\$ 30,102</u>	<u>\$ 23,347</u>

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OTSEGO COUNTY BUS SYSTEM

Statements of Cash Flows

	For the Year Ended September 30,	
	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,612,895)	\$ (1,514,374)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	165,226	203,421
Change in operating assets and liabilities that provided (used) cash:		
Accounts receivable	(6,973)	(4,398)
Accounts payable and accrued liabilities	(271)	(2,239)
Change in net pension liability and deferred amounts	153,383	19,004
Net cash used in operating activities	<u>\$ (1,301,530)</u>	<u>\$ (1,298,586)</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 the expenditures of the Michigan Transportation Fund and the 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.

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 revenue and expenses not meeting this definition are reported as nonoperating revenue and 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, liabilities, deferred outflows of resources and equity

Deposits and investments

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

State statutes authorize the Bus System to invest in:

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of September 30, 2016 and 2015, no receivable balances were expected to be uncollectible.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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

Capital assets

Capital assets, which include land, buildings, vehicles and equipment, are reported in the proprietary fund financial statements. Capital assets are defined by the Bus System as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

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

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

	Years
Buildings	20
Equipment	5-12
Vehicles	3-7

Deferred outflows of resources

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

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

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.

Pensions

For purposes of measuring the net pension liability and deferred outflows 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 2015 taxable valuation of Otsego County property amounted to \$1,137,047,405 on which ad valorem taxes of .25 mills for the Bus System were levied in the amount of approximately \$284,000.

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, 2016 and 2015:

	2016	2015
Statement of net position:		
Cash and cash equivalents	<u>\$ 30,102</u>	<u>\$ 23,347</u>
Deposits:		
Pooled cash with Otsego County	\$ 29,902	\$ 23,147
Cash on hand	<u>200</u>	<u>200</u>
Total	<u>\$ 30,102</u>	<u>\$ 23,347</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 (TO) 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 2016	Non-Urban 2015
Net eligible expenses	\$ 1,722,091	\$ 1,636,065
Funding rate	<u>18.50%</u>	<u>16.50%</u>
Section 5311 revenue	318,587	269,951
Funding received	<u>(217,864)</u>	<u>(203,226)</u>
Due from Federal government - current year	100,723	66,725
Prior years payments received in current year	(80,379)	(55,878)
Due from federal government - prior years	<u>14,821</u>	<u>3,974</u>
Total due from federal government	<u>\$ 35,165</u>	<u>\$ 14,821</u>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Due (to) 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 (to) from the State of Michigan is as follows:

	Non-Urban 2016	Non-Urban 2015
Net eligible expenses	\$ 1,730,044	\$ 1,641,565
Funding rate	35.756%	36.340%
Section 5311 revenue	618,595	596,545
Funding received	<u>(627,875)</u>	<u>(556,588)</u>
Due (to) from State - current year	(9,280)	39,957
Due from State - prior years	61,155	76,909
Prior years payments received in current year	<u>(78,650)</u>	<u>(55,711)</u>
Total due (to) from state government	<u>\$ (26,775)</u>	<u>\$ 61,155</u>

4. CAPITAL ASSETS

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

	Beginning Balance	Additions	Adjustments/ Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
Capital assets being depreciated:				
Buildings	760,033	-	-	760,033
Vehicles	974,632	-	-	974,632
Equipment	-	8,047	-	8,047
Total capital assets being depreciated	<u>1,734,665</u>	<u>8,047</u>	<u>-</u>	<u>1,742,712</u>
Less accumulated depreciation for:				
Buildings	(460,243)	(38,001)	-	(498,244)
Vehicles	(623,893)	(126,420)	-	(750,313)
Equipment	-	(805)	-	(805)
Total accumulated depreciation	<u>(1,084,136)</u>	<u>(165,226)</u>	<u>-</u>	<u>(1,249,362)</u>
Total capital assets being depreciated, net	<u>650,529</u>	<u>(157,179)</u>	<u>-</u>	<u>493,350</u>
Total capital assets, net	<u>\$ 750,527</u>	<u>\$ (157,179)</u>	<u>\$ -</u>	<u>\$ 593,348</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 Federal and State Grants	Total
Land	\$ 73,337	\$ 26,661	\$ 99,998
Buildings	500,088	259,945	760,033
Vehicles	-	974,632	974,632
Equipment	8,047	-	8,047
Total capital assets being depreciated	508,135	1,234,577	1,742,712
Less total accumulated depreciation	(353,753)	(895,609)	(1,249,362)
Total capital assets being depreciated, net	154,382	338,968	493,350
Total capital assets, net	\$ 227,719	\$ 365,629	\$ 593,348

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	2,882,528	-	(1,147,863)	1,734,665
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	(2,015,509)	(203,421)	1,134,794	(1,084,136)
Total capital assets being depreciated, net	867,019	(203,421)	(13,069)	650,529
Total capital assets, net	\$ 967,017	\$ (203,421)	\$ (13,069)	\$ 750,527

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

	Purchased with Bus System Funds	Purchased with Capital and State Grants	Total
Land	\$ 73,337	\$ 26,661	\$ 99,998
Buildings	500,088	259,945	760,033
Vehicles	-	974,632	974,632
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

5. 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 1.25% 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, 2015, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	10
Active employees	22
Total membership	51

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:

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

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, 2015, 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, 2015 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 specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% to 4%.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.53%
Diversifying strategies	10.00%	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>

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

Discount Rate. The discount rate used to measure the total pension liability is 8.25%. 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.

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, 2014	\$ 2,961,082	\$ 2,725,767	\$ 235,315
Changes for the year:			
Service cost	57,030	-	57,030
Interest	240,059	-	240,059
Differences between expected and actual experience	161,987	-	161,987
Changes in assumptions	180,746	-	180,746
Employer contributions	-	72,717	(72,717)
Net investment loss	-	(40,348)	40,348
Benefit payments, including refunds of employee contributions	(159,593)	(159,593)	-
Administrative expense	-	(5,928)	5,928
Other changes	299	-	299
Net changes	480,528	(133,152)	613,680
Balances at December 31, 2015	\$ 3,441,610	\$ 2,592,615	\$ 848,995

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	\$ 1,213,302	\$ 848,995	\$ 536,342

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 September 30, 2016, the Bus System recognized pension expense of \$229,897. The Bus System reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 238,114
Difference between expected and actual experience	121,490
Changes in assumptions	135,559
	<u>495,163</u>
Contributions subsequent to the measurement date	49,058
	<u>49,058</u>
Total	<u>\$ 544,221</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, 2017. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended	Deferred Outflows of Resources
2017	\$ 147,629
2018	147,629
2019	147,625
2020	<u>52,280</u>
Total	<u>\$ 495,163</u>

Payable to the Pension Plan. At September 30, 2016, the Bus System reported a payable of \$5,355 for the outstanding amount of contributions to the pension plan required for the Bus System's year ended September 30, 2016.

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, 2015.

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, 2015, the balance of the County's member retention was \$246,391.

Changes in the balances of claims liabilities are as follows:

	Year Ended December 31,	
	2015	2014
Estimated liability, beginning of year	\$ 51,456	\$ 122,043
Estimated claims incurred	19,655	49,073
Claim payments	(71,111)	(119,660)
Estimated liability, end of year	\$ -	\$ 51,456

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, 2015 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

7. CONTINGENT LIABILITIES

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

8. COST ALLOCATION PLAN

The cost allocation plans were adhered to in preparation of the financial statements. The Bus System has four cost allocation plans where the methodology has been approved by the State's Bureau of Passenger Transportation (BPT). Those cost allocations are for 1998 Maintenance Services, 2003 Rent Cost Allocation, 2004 Administration Service Otsego County, and 2010 Meals on Wheels. As of September 30, 2016, 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 29-35 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 and depreciable lives have been approved by the Office of Passenger Transportation (the "OPT"), prior to 2007. Since 2007, no assets have been approved by the OPT. Total depreciation expense as of December 31, 2016, was \$165,226. Eligible depreciation for 2016 amounted to \$26,981 and the remaining \$138,245 was ineligible.

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

Expenses associated with 40710 Nontransportation Revenue of \$6,942 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 \$1,992 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.

OTSEGO COUNTY BUS SYSTEM

Notes to Financial Statements

11. 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.

12. SUBSEQUENT EVENT

Subsequent to September 30, 2016, the Bus System received \$150,000 advance from the County for working capital purposes. The Bus System anticipates repaying the outstanding advance to the County with fiscal 2017 revenues.

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REQUIRED SUPPLEMENTARY INFORMATION

OTSEGO COUNTY BUS SYSTEM

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Year Ended September 30, 2016	Year Ended September 30, 2015
Total pension liability		
Service cost	\$ 57,030	\$ 52,717
Interest	240,059	227,872
Differences between expected and actual experience	161,987	-
Changes in assumptions	180,746	-
Benefit payments, including refunds of employee contributions	(159,593)	(110,465)
Other changes	299	-
Net change in total pension liability	<u>480,528</u>	<u>170,124</u>
Total pension liability, beginning of year	<u>2,961,082</u>	<u>2,790,958</u>
Total pension liability, end of year	<u>3,441,610</u>	<u>2,961,082</u>
Plan fiduciary net position		
Employer contributions	72,717	64,357
Net investment (loss) income	(40,348)	165,080
Benefit payments, including refunds of employee contributions	(159,593)	(110,465)
Administrative expense	(5,928)	(6,065)
Net change in plan fiduciary net position	<u>(133,152)</u>	<u>112,907</u>
Plan fiduciary net position, beginning of year	<u>2,725,767</u>	<u>2,612,860</u>
Plan fiduciary net position, end of year	<u>2,592,615</u>	<u>2,725,767</u>
Bus System's net pension liability	<u>\$ 848,995</u>	<u>\$ 235,315</u>
Plan fiduciary net position as a percentage of total pension liability	75.3%	92.1%
Covered-employee payroll	<u>\$ 710,949</u>	<u>\$ 625,094</u>
Bus System's net pension liability as a percentage of covered-employee payroll	119.4%	37.6%

Notes:

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

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

OTSEGO COUNTY BUS SYSTEM

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

Schedule of the Net Pension Liability

Fiscal Year Ended September 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2016	\$ 3,441,610	\$ 2,592,615	\$ 848,995	75.3%	\$ 710,949	119.4%
2015	2,961,082	2,725,767	235,315	92.1%	625,094	37.6%

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

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

OTSEGO COUNTY BUS SYSTEM

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

Schedule of Contributions

Fiscal Year Ending September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
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, closed
Remaining amortization period	23 years
Asset valuation method	10 year smoothed
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
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	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

SUPPLEMENTARY INFORMATION

OTSEGO COUNTY BUS SYSTEM

Schedules of Local Revenues

	Year Ended September 30, 2016	Year Ended September 30, 2015
40100 Fares - demand responses	\$ 104,064	\$ 106,675
40200 Fares - contractual	204,445	197,276
40400 Meals on Wheels	33,363	32,080
40615 Nontransportation revenue	1,992	1,950
40100 Motor pool	6,942	12,306
40800 Taxes levied for transit	284,610	285,647
40799 Gain on disposal of vehicles	-	11,905
40999 Other local contracts and reimbursements	20	21,281
	<hr/>	<hr/>
Total	<u>\$ 635,436</u>	<u>\$ 669,120</u>

OTSEGO COUNTY BUS SYSTEM

Schedules of Expenditures of Federal and State Awards

	Year Ended September 30, 2016	Year Ended September 30, 2015
State of Michigan operating grants:		
Michigan Department of Transportation (MDOT)		
Operating grant (Act 51) 1994 (urban)	\$ 618,595	\$ 596,545
Federal operating grants:		
U.S. Department of Transportation		
Operating grant - Section 5311 Passed through MDOT	318,587	269,951
	<hr/>	<hr/>
Total government operating grants	<u>\$ 937,182</u>	<u>\$ 866,496</u>

This schedule is prepared using the accrual basis method of accounting.

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Revenue Report

For the Year Ended September 30, 2016

Code	Description	Amount
401:	Farebox revenue	
40100	Passenger fares	\$ 104,064
40200	Contract fares	204,445
404:	Package and charter revenue	
40400	Package delivery/meal delivery programs	33,363
406:	Auxiliary transportation revenues	
40615	Advertising	1,992
407:	NonTransportation revenues	
40710	Sales of maintenance services	6,942
408:	Local revenue	
40800	Taxes levied directly for/by transit agency	284,610
409:	Local revenue	
40999	Other local contracts and reimbursements	13,020
411:	State formula and contracts	
41101	State operating assistance	618,595
413:	Federal contracts	
41301	Federal Section 5311 (operating funds only)	<u>318,587</u>
Total revenue		<u>\$ 1,585,618</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Expense Report For the Year Ended September 30, 2016

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501:	Labor				
50101	Operators salaries & wages	\$ 534,438	\$ -	\$ -	\$ 534,438
50102	Other salaries & wages	-	82,554	135,139	217,693
50103	Dispatchers' salaries & wages	137,859	-	-	137,859
502:	Fringe benefits				
50200	Other fringe benefits	225,039	45,334	43,482	313,855
50220	Pension	210,640	9,132	27,083	246,855
503:	Services				
50302	Advertising fees	-	-	2,029	2,029
50305	Audit cost	9,621	-	-	9,621
50399	Other services	-	-	76,404	76,404
504:	Materials and supplies				
50401	Fuel & lubricants	88,177	-	-	88,177
50402	Tires and tubes	-	-	-	-
50499	Other materials and supplies	67,450	23,320	14,225	104,995
505:	Utilities				
50500	Utilities	-	-	28,658	28,658
506:	Insurance				
50603	Other insurance	25,608	-	-	25,608
507:	Taxes & fees				
50700	Taxes & fees	-	-	-	-
509:	Misc. expenses				
50902	Travel, meetings & training	1,187	120	-	1,307
50999	Other misc expenses	-	-	2,042	2,042
513:	Depreciation				
51300	Depreciation	165,226	-	-	165,226
	Total operating expenses				<u>1,954,767</u>
550:	Ineligible expenses				
55007	Ineligible depreciation	138,245	-	-	138,245
55008	Other ineligible expenses (County paid replacement bus (\$4,500); County paid generator (\$8,500); meals 21,208 X \$3.33 = \$70,623)	75,123	8,500	-	83,623
560:	Ineligible expenses				
56001	Ineligible expenses associated with sale of maintenance service	2,855	-	-	2,855
	Total ineligible expenses				<u>224,723</u>
	Total eligible expenses				<u>\$ 1,730,044</u>

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Nonfinancial Report

For the Year Ended September 30, 2016
(Unaudited)

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle hours	29,529	641	16	30,186
611	Vehicle miles	424,861	8,137	65	433,063
615	Passengers - regular	23,522	1,080	533	25,135
616	Passengers - elderly	8,709	392	92	9,193
617	Passengers - persons with disabilities	47,637	395	-	48,032
618	Passengers - elderly person with disabilities	6,591	233	14	6,838
622	Total demand-response passengers	86,459	2,100	639	89,198
625	Days operated	3,490	51	1	3,542

Total passengers: 89,198

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: 21

continued...

OTSEGO COUNTY BUS SYSTEM

Nonurban Regular Service Nonfinancial Report

For the Year Ended September 30, 2016

(Unaudited)

Miscellaneous Information

Code	Description	Quantity
660	Diesel/gasoline gallons consumed	62,848
661	Total transit agency employees (full-time equivalents)	29
662	Total revenue vehicle operators (full-time equivalents)	21

concluded

OTSEGO COUNTY BUS SYSTEM

Operating Assistance Calculation

For the Year Ended September 30, 2016

	Nonurban
Total expenses	\$ 1,954,767
Less ineligible expenses:	
Depreciation	138,245
Local contracts	83,623
Motor pool expenses	2,855
Total ineligible expenses	<u>224,723</u>
Eligible expenses for state reimbursement	1,730,044
Reimbursement percentage	<u>35.756%</u>
State operating assistance	<u>\$ 618,595</u>
Total federal eligible expenses	1,730,044
Less additional federal ineligible expenses per Uniform Guidance	<u>7,953</u>
Eligible expenses for federal reimbursement	\$ 1,722,091
Reimbursement percentage	<u>18.50%</u>
Federal section 5311 operating assistance	<u>\$ 318,587</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 14, 2017

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 (the "County"), Michigan, as of and for the year ended September 30, 2016, 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 14, 2017.

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 2016-001 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 black ink that reads "Lehmann Lohman 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, 2016

2016-001 - Balance Sheet Reconciliations/Material Audit Adjustments (Repeated from Prior Year)

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

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

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

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

Effect. As a result of this condition, the Bus System's 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 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, 2016

2016-002 - Preparation of GAAP-Basis Financial Statements (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. As is the case with many smaller and medium-sized entities, the Bus System has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Bus System has placed reliance on its external auditors, who cannot by definition be considered a part of the Bus Systems' internal controls.

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

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

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

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



OTSEGO COUNTY BUS SYSTEM

Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2016

Finding 2015-001 - Balance Sheet Reconciliation / Material Audit Adjustments

The Bus System does not properly reconcile its balance sheet accounts including: due (to) from other governmental units, capital assets and accumulated depreciation. Material journal entries in the areas of capital assets and due from other governmental units were proposed by the auditors. These adjustments were not detected by the Bus System's internal control over financial reporting. These entries were subsequently recorded in the general ledger. This matter was repeated as finding 2016-001.

Finding 2015-002 - Preparation of GAAP-Basis Financial Statements

The Bus System has relied on its external auditors to prepare the financial statements in accordance with GAAP. This matter was repeated as finding 2016-002.

