

Beaver Island Transportation Authority

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2018

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
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</i> <i>AUDITING STANDARDS</i>	5
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	8
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION.....	9
STATEMENT OF CASH FLOWS.....	10
NOTES TO FINANCIAL STATEMENTS.....	11
SUPPLEMENTAL INFORMATION REQUIRED BY MICHIGAN DEPARTMENT OF TRANSPORTATION	
SCHEDULE 2 - SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS.....	18
NONURBAN FERRY SERVICE	
SCHEDULE 4R - NONURBAN FERRY SERVICE REVENUE REPORT.....	19
SCHEDULE 4E - NONURBAN FERRY SERVICE EXPENSE REPORT.....	20
SCHEDULE 5 - OPERATING ASSISTANCE CALCULATION.....	22
SCHEDULE 7 - SCHEDULE OF OPERATING EXPENSES.....	23
SCHEDULE 8 - NON-OPERATING REVENUES.....	24
SCHEDULE 9 - CAPITAL CONTRIBUTIONS - GRANTS.....	25

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Beaver Island Transportation Authority (the "Authority") annual financial report presents a discussion and analysis of the Authority's financial performance during the fiscal year ended September 30, 2018. It is to be read in conjunction with the Authority's financial statements, which immediately follow this section.

Financial Highlights

The Authority's total revenues increased approximately \$201,000 from the previous year. The Authority's primary source of revenue is provided from operating and capital grant agreements with the Michigan Department of Transportation. These grants account for approximately 60% of the Authority's revenues. Other major sources of revenues include local operating and capital grant match sources.

The largest expenditure is for materials and supplies in the amount of approximately \$457,000 or 44% of the expenditures as compared to approximately \$370,000 last year. A majority of this expenditure (approximately \$371,000 or 82%) is fuel consumption.

Relationship of Financial Statements

This annual report consists of the management's discussion and analysis (this section), the basic financial statements and the required supplemental information.

The Authority's basic financial statements are reported as a proprietary fund, which tells how basic transportation services were financed in the short-term and what remains for future spending.

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.

Proprietary Fund Statements

The proprietary fund statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Authority's assets and liabilities. The statement of revenues, expenses and changes in net position accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The net position of the proprietary fund is reported in the statement of net position. Net position - the difference between the Authority's assets and liabilities - is one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net position is an indicator of whether its financial position is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Net Position

The Authority's total assets at September 30, 2018 are \$3,670,635, a decrease of approximately \$195,000, or 5%, from the previous year's total assets of \$3,865,178.

The Authority's capital assets at September 30, 2018 are \$3,549,152, a decrease of approximately \$217,000, or 6%, from the previous year's total capital assets of \$3,766,251.

The Authority's total liabilities at September 30, 2018 are \$110,921, an increase of approximately \$23,000, or 25%, from the previous year's total liabilities of \$88,412.

The Authority's total net position at September 30, 2018 is \$3,559,714, a decrease of approximately \$217,000, or 6%, from the previous year's total net position of \$3,776,766.

Changes in Net Position

The Authority's operating expenses for the year ended September 30, 2018 are \$1,037,313, an increase of approximately \$58,000, or 6%, from the previous year's operating expenses of \$979,531.

The Authority's non-operating revenues for the year ended September 30, 2018 are \$613,007, an increase of approximately \$67,000, or 12%, from the previous year's total non-operating revenues of \$546,277.

The Authority's capital contributions for the year ended September 30, 2018 are \$207,254, an increase of approximately \$135,000, or 185%, from the previous year's total capital contributions of \$72,738.

The Authority's decrease in net position for the year ended September 30, 2018 is \$217,052. When compared to the prior year's decrease in net position of \$360,516, the change in net position increased approximately \$143,000 or 40%.

Capital Assets

During the fiscal year ended September 30, 2018, the Authority's capital assets decreased by approximately \$217,000, or 6%, from the previous year. This decrease is mostly attributable to depreciation expense of approximately \$394,000, which is offset by capital additions of approximately \$177,000 and disposals of approximately \$48,000.

Requests for Information

This financial report is designed to provide a general overview of Beaver Island Transportation Authority's finances for all those with an interest in the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Beaver Island Transportation Authority, PO Box 426, Beaver Island, MI 49782.



DENNIS, GARTLAND & NIERGARTH
Celebrating 45 Years of Service

Certified Public Accountants
Business Advisors

Thomas E. Gartland, Retired
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA
Trina B. Edwards, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Authority Board
Beaver Island Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of *Beaver Island Transportation Authority* (the "Authority"), which comprise the statement of net position as of and for the year ended September 30, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

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.

Auditor's 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 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 Authority'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 Authority'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 financial position of Beaver Island Transportation Authority as of September 30, 2018 and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages *i* through *ii* 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 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 Authority's basic financial statements. The supplemental information, on pages 18 - 25, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 basic 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2019, on our consideration of the Authority's internal control over financial reporting and on 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 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 Authority's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

February 26, 2019



DENNIS, GARTLAND & NIERGARTH

Celebrating 45 Years of Service

Certified Public Accountants
Business Advisors

Thomas E. Gartland, Retired
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA
Trina B. Edwards, CPA

**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***

To the Authority Board
Beaver Island Transportation Authority

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 ***Beaver Island Transportation Authority*** (the "Authority"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency we consider to be a significant deficiency.

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 combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below as Finding 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below as Finding 2018-002 to be a significant deficiency.

FINDING 2018-001

Lack of Segregation of Duties

Material Weakness in Internal Control over Financial Reporting

Criteria: Segregation of duties for the Authority is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The Authority has not achieved a complete segregation of duties among employees who have access to assets and those with accounting responsibilities.

Cause: The small size of business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the Authority lacks a complete segregation of duties and is exposed to the risk of material misstatement of its financial statements.

Management's Response: The Authority has evaluated the manner in which they segregate duties and has determined the cost associated with adding additional staff to achieve a complete segregation of duties is not justified by the expected benefits. As a mitigating control, the Executive Director does not sign checks and two Board members' signatures are required on all checks.

FINDING 2018-002

Preparation of Financial Statements

Significant Deficiency in Internal Control over Financial Reporting

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller governments, the Authority has historically relied on its independent external auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the Authority's internal controls.

Cause: This condition was caused by the Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to external auditors than to incur the time and expense of obtaining the necessary resources required for the Authority to perform this task internally.

Effect: As a result of this condition, the Authority 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.

Management's Response: The Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the Authority to outsource this task to its independent external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Deficiencies

The Authority's response to the findings identified in our audit is described above. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

February 26, 2019

Beaver Island Transportation Authority

STATEMENT OF NET POSITION

September 30, 2018

ASSETS	
CURRENT ASSETS	
Cash (Note B)	\$ 107,931
Accounts receivable	797
Due from State	<u>12,755</u>
Total current assets	121,483
Capital assets, net (Note C)	<u>3,549,152</u>
Total assets	<u><u>\$ 3,670,635</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	\$ 56,295
Due to State	<u>54,626</u>
Total liabilities	<u>110,921</u>
NET POSITION	
Invested in capital assets, net of related debt	3,549,152
Unrestricted	<u>10,562</u>
Total net position	<u>3,559,714</u>
Total liabilities and net position	<u><u>\$ 3,670,635</u></u>

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

Beaver Island Transportation Authority

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended September 30, 2018

Operating revenues	\$ -
Operating expenses (Schedule 7)	<u>1,037,313</u>
Total operating loss	(1,037,313)
Non-operating revenues (Schedule 8)	<u>613,007</u>
Net loss before capital contributions	(424,306)
Capital contributions - grants (Schedule 9)	<u>207,254</u>
Decrease in net position	(217,052)
Net position, beginning of year	<u>3,776,766</u>
Net position, end of year	<u><u>\$ 3,559,714</u></u>

Beaver Island Transportation Authority

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2018

Operating activities	
Cash payments to suppliers and employees	<u>\$ (620,063)</u>
Investing activities	
Interest income	<u>56</u>
Capital and related financing activities	
State capital grants	194,499
Proceeds from disposal of assets	5
Purchase of property and equipment	<u>(177,089)</u>
Net cash provided by capital and related financing activities	<u>17,415</u>
Non-capital financing activities	
State operating grants	306,473
Local match	<u>327,921</u>
Net cash provided by non-capital financing activities	<u>634,394</u>
NET INCREASE IN CASH	31,802
Cash, beginning of year	<u>76,129</u>
Cash, end of year	<u><u>\$ 107,931</u></u>

Beaver Island Transportation Authority

NOTES TO FINANCIAL STATEMENTS

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Beaver Island Transportation Authority (the "Authority") was created pursuant to the Michigan Public Transportation Authority Act of 1986 P.A. 196. The purpose of the Authority is to plan, operate and maintain a ferry system in the greater Beaver Island area.

The Authority Board is comprised of five members appointed by the governing bodies of the political subdivisions participating in the Authority. Representation on the Board is proportional to the population of the respective political subdivisions.

The operation of a ferry between Beaver Island and Charlevoix is necessary for the public welfare, good and convenience of the citizens of Beaver Island. The Authority has the power to provide a system of transportation for its citizens and is authorized to subcontract the management and operation of a ferry service to a third party. Therefore, all revenues are shown as non-operating local assistance rather than operating revenues.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units. The accounting and reporting framework and the more significant accounting principles and practices of the Authority are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Authority's financial activities for the fiscal year ended September 30, 2018.

The Financial Reporting Entity

The Authority's financial statements include the accounts of all Authority operations. In evaluating the Authority as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Authority may or may not be financially accountable and, as such, be includable within the Authority's financial statements. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, the Authority is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Authority. Additionally, the Authority is required to consider other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete.

Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in the Authority's financial statements.

NOTES TO FINANCIAL STATEMENTS - Continued

Enterprise Fund Accounting

The Authority is accounted for as an enterprise fund, a proprietary fund type as defined by the Governmental Accounting Standards Board. The enterprise fund is used to account 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 are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their statement of net position. Net position is segregated into three components: (a) invested in capital assets, net of related debt; (b) restricted; and (c) unrestricted. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

The Authority's proprietary fund applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements.

Cash

The Authority considers cash on hand and demand deposits held at banks to be cash and cash equivalents. Cash deposits are reported at carrying value, which reasonably estimates fair value.

Capital Assets and Depreciation

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Assets with an initial individual cost of less than \$5,000 and/or an estimated useful life of less than one year and purchased with State grants are expensed and subtracted out as ineligible expenses on the Operating Assistance Calculation.

The depreciation expense reported in 51300 equals the ineligible depreciation recorded in 55007. Therefore, the depreciation assurance regarding approval of useful life is not required.

NOTES TO FINANCIAL STATEMENTS - Continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Ferry and ferry improvements	10-30 years
Dock	15 years
Building and improvements	40 years
Miscellaneous capital outlays	10 years
Vehicles	5 years
Machinery and equipment	5-12 years
Fence	10-20 years
Other equipment	5-10 years

Spending Policy

When both restricted and unrestricted net position are available for use, it is the Authority's policy to use restricted net position first, then unrestricted net position.

Grants

The Authority receives two distinct types of grants from governmental agencies:

- Operating grants are used to fund the Authority's day-to-day operations and to meet normal expenses of those operations.
- Capital grants are used for capital expenditures. No capital money is used to pay for operating expenses.

Cost Allocation Plan

No Office of Passenger Transportation approved cost allocation plans are required and, therefore, none were used in the preparation of the financial statements.

Explanation of Ineligible Expenses per the Bureau of Passenger Transportation Revenue and Expense Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual ("R&E Manual").

Operating expenses of \$30,179 were subtracted out as ineligible under 57604 Other Ineligible Operating Expense paid by Capital Contract because these expenses were paid for with capital funds. No other operating expenses were paid for with capital funds.

NOTES TO FINANCIAL STATEMENTS - Continued

There are no expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Non-Transportation, and therefore, no expenses need to be subtracted out as ineligible. No expenses were incurred because the Authority has no such related revenues.

Use of Estimates in the Preparation of Financial Statements

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

NOTE B - CASH

At September 30, 2018 the Authority's cash included the following:

Bank deposits	<u>\$ 107,931</u>
---------------	-------------------

Custodial Credit Risk - Deposits

In the event of a bank failure, the Authority's bank deposits may not be returned. As of September 30, 2018, the Authority's bank balances of \$109,366 were fully insured by the Federal Deposit Insurance Corporation.

The Authority shall deposit monies in time, savings or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation ("FDIC"), National Credit Union Share Insurance Fund ("NCUSIF"), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

The Authority shall obtain collateralization of excess funds at 100% of the principal value for all excess monies over the insured limits of the financial institution or banks. Such collateralization shall be in the form of U.S. Treasury Notes or bonds in the name of the Authority held in trust by the financial institution or bank. The Authority may choose collateralization in the following forms and percentages:

- a. U.S. Treasury Notes 100%; or
- b. U.S. Treasury Notes and/or Bonds 75%; and
- c. Federal Mortgage Backed Securities 25%

In any such case, the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization, at a minimum, once every quarter to the Authority.

The Authority's investment policy further limits its funds to an FDIC insured institution.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CAPITAL ASSETS

Capital assets consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Ferry and ferry improvements	\$ 5,771,060	\$ 118,660	\$ -	\$ 5,889,720
Dock	1,235,968	-	-	1,235,968
Building and improvements	546,004	-	-	546,004
Miscellaneous capital outlays	461,724	-	-	461,724
Vehicles	218,204	58,429	-	276,633
Machinery and equipment	388,747	-	(48,177)	340,570
Fence	215,846	-	-	215,846
Other equipment	<u>137,414</u>	<u>-</u>	<u>-</u>	<u>137,414</u>
Total depreciable assets	8,974,967	177,089	(48,177)	9,103,879
Accumulated depreciation	(5,445,636)	(394,188)	48,177	(5,791,647)
New ferry design	<u>236,920</u>	<u>-</u>	<u>-</u>	<u>236,920</u>
Total capital assets, net	<u>\$ 3,766,251</u>	<u>\$ (217,099)</u>	<u>\$ -</u>	<u>\$ 3,549,152</u>

Total depreciation expense for the year ended September 30, 2018 was \$394,188.

The new ferry design plans are classified as construction in progress and will be depreciated upon completion of the project.

NOTE D - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Beaver Island Boat Company ("BIBCo"), which contracts to operate the ferry vessel, provides workers' compensation insurance coverage for personnel used in the operation of the ferry vessel and maritime insurance coverage for personnel used by BIBCo in the operation of the ferry vessel.

BIBCo is responsible for insuring the vessel provided by the Authority under the terms of this agreement and provides for protection and indemnity insurance coverage, excess liability coverage and a portion of hull and machinery coverage. Said coverage is paid for and provided by BIBCo with the Authority named as second insured.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - PENSION PLAN

The only retirement benefit offered by the Authority is a Simple IRA. The entire amount of \$1,512 was expensed on the books and reported in 50200 Fringe Benefits. The entire sum of \$1,512 was paid during the year ended September 30, 2018, and therefore, no retirement expense is subtracted out under 58010 Ineligible Fringe Benefits. The Authority did not incur, nor pay, any 50240 DC OPEB or 50250 DB OPEB.

NOTE F - MANAGEMENT AND OPERATING AGREEMENT

The Authority agreed to a management services agreement with the Beaver Island Boat Company ("BIBCo") dated May 29, 2003. The term of this agreement is thirty years, back-dated to commence December 21, 1993.

Under this agreement, BIBCo utilizes ferry and dock assets of the Authority, as detailed in Note C, to operate the ferry service in exchange for the right to retain a portion of the revenues collected from the operation of the vessel. At September 30, 2018, receivables and payables for BIBCo were \$797 and \$552, respectively.

NOTE G - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the State government. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amount, if any, to be immaterial.

NOTE H - STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (1,037,313)
Add: Depreciation expense not requiring outlay of cash	394,188
Change in prepaid expenses	553
Change in accounts payable	50,333
Change in due to State	<u>(27,824)</u>
Net cash used by operating activities	<u>\$ (620,063)</u>

**SUPPLEMENTAL INFORMATION REQUIRED BY
MICHIGAN DEPARTMENT OF TRANSPORTATION**

Beaver Island Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year ended September 30, 2018

Federal and State Grantor Pass Thorough Grantor Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program or Award Amount	Beginning of Year Receivable (Deferral)	Current Year Expenditures			Current Year Receipts (Payments)	End of Year Receivable (Deferral)
					Total	Federal	State		
<u>United States Department of Transportation</u>									
Passed through Michigan Department of Transportation									
Highway Planning and Construction Cluster									
Highway Planning and Construction (Federal-Aid Highway Program)									
Section 70 Ferry Boat									
Construction (80/20/0)	20.205	2012-0043/P7	\$ 276,535	\$ -	\$ 33,603	\$ 26,882	\$ 6,721	\$ 33,603	\$ -
<u>Michigan Department of Transportation</u>									
Act 51 Operating Assistance (0/100/0)	n/a	2018	335,000	-	306,473	-	306,473	312,087	(5,614)
Act 51 Operating Assistance (0/100/0)	n/a	2017	370,000	(49,012)	-	-	-	-	(49,012)
Act 51 Operating Assistance (0/100/0)	n/a	2016	382,500	(33,438)	-	-	-	(33,438)	-
Total Act 51 Operating Assistance			1,087,500	(82,450)	306,473	-	306,473	278,649	(54,626)
Act 51 Capital Grants (0/90/10)	n/a	2017-0018/P1	200,000	-	65,937	-	65,937	53,182	12,755
Act 51 Capital Grants (0/90/10)	n/a	2017-0018/P4	200,000	-	21,072	-	21,072	21,072	-
Act 51 Capital Grants (0/90/10)	n/a	2012-0043/P5	200,000	-	19,329	-	19,329	19,329	-
Act 51 Capital Grants (0/90/10)	n/a	2012-0043/P6	200,000	-	49,947	-	49,947	49,947	-
Total Act 51 Capital Grants			800,000	-	156,285	-	156,285	143,530	12,755
Total Federal and State financial assistance			\$ 2,164,035	\$ (82,450)	\$ 496,361	\$ 26,882	\$ 469,479	\$ 455,782	\$ (41,871)

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE REVENUE REPORT

For the year ended September 30, 2018

Code	Description	
409:	Local revenue	
40910	Non-operating local assistance	\$ 306,473
411:	State formula and contracts	
41101	State operating assistance	306,473
414:	Other revenue	
41400	Interest income	56
41500	Miscellaneous income	5
Total revenues		<u>\$ 613,007</u>

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE EXPENSE REPORT

For the year ended September 30, 2018

Code	Description	Operations	Maintenance	General Admin.	Total
501:	Labor				
50101	Salaries and wages	\$ -	\$ -	\$ 50,400	\$ 50,400
502:	Fringe benefits				
50200	Fringe benefits	-	-	13,801	13,801
503:	Services				
50302	Advertising fees	-	-	800	800
50305	Audit cost	-	-	5,800	5,800
50399	Other services <i>(Cleaning/freight/dock sealing/snow plowing/roof repairs/ramp repairs/legal)</i>	-	-	3,938	3,938
504:	Materials and supplies				
50401	Fuel and lubricants	371,039	-	-	371,039
50404	Major purchases <i>(Vessel)</i>	26,325	-	3,854	30,179
50499	Other materials and supplies <i>(Office/cleaning supplies/postage)</i>	52,598	-	2,813	55,411
505:	Utilities				
50500	Utilities	-	-	29,056	29,056
506:	Insurance				
50603	Liability insurance	-	-	14,302	14,302
50699	Other insurance	64,757	-	-	64,757
509:	Miscellaneous expenses				
50902	Travel, meetings and training	-	-	2,076	2,076
50903	Subscriptions	-	-	693	693
50999	Other miscellaneous expenses <i>(Freight, bank charges)</i>	-	-	664	664
512:	Operating leases and rentals				
51200	Operating leases and rentals <i>(Copy machine)</i>	-	-	209	209
513	Depreciation				
51300	Depreciation	394,188	-	-	394,188

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE EXPENSE REPORT - Continued

For the year ended September 30, 2018

Code	Description	Operations	Maintenance	General Admin.	Total
550	Ineligible expenses				
55007	Ineligible depreciation	\$ 394,188	\$ -	\$ -	\$ 394,188
576	Ineligible expenses				
57604	Other ineligible operating expenses paid by capital contract	30,179	-	-	30,179
		<u>\$ 908,907</u>	<u>\$ -</u>	<u>\$ 128,406</u>	\$ 1,037,313
				Total ineligible expenses	<u>424,367</u>
				Total eligible expenses	<u>\$ 612,946</u>

Beaver Island Transportation Authority

OPERATING ASSISTANCE CALCULATION

For the year ended September 30, 2018

	<u>State Operating Assistance</u>
Expenses	
Labor	\$ 50,400
Fringe benefits	13,801
Services	10,538
Materials and supplies	456,629
Utilities	29,056
Casualty and liability costs	79,059
Miscellaneous	3,433
Leases and rentals	209
Depreciation	<u>394,188</u>
Total expenses	<u>1,037,313</u>
Less ineligible expenses	
Depreciation	394,188
Capital grant expenses	
Grant #2017-0018/P1	27,295
Grant #2012-0043/P5	<u>2,884</u>
Total ineligible expenses	<u>424,367</u>
Net eligible expenses	<u>\$ 612,946</u>
Maximum reimbursement (50%)	<u>\$ 306,473</u>

Beaver Island Transportation Authority

SCHEDULE OF OPERATING EXPENSES

For the year ended September 30, 2018

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total</u>
Labor:				
Operating salaries and wages	\$ -	\$ -	\$ 50,400	\$ 50,400
Fringe benefits:				
Other fringe benefits	-	-	13,801	13,801
Services:				
Advertising	-	-	800	800
Audit	-	-	5,800	5,800
Other services	-	-	3,938	3,938
Material and supplies:				
Fuel and lubricants	371,039	-	-	371,039
Major purchases	26,325	-	3,854	30,179
Other supplies	52,598	-	2,813	55,411
Utilities:				
Utilities	-	-	26,621	26,621
Telephone	-	-	2,435	2,435
Casualty and liability cost:				
Liability and property damage insurance	-	-	14,302	14,302
Insurance - hull	64,757	-	-	64,757
Miscellaneous expenses:				
Travel	-	-	2,076	2,076
Subscriptions	-	-	693	693
Other	-	-	664	664
Leases and rentals	-	-	209	209
Depreciation	394,188	-	-	394,188
Total operating expenses	\$ 908,907	\$ -	\$ 128,406	\$ 1,037,313

Beaver Island Transportation Authority

NON-OPERATING REVENUES

For the year ended September 30, 2018

State of Michigan operating grants	
State Operating Assistance - Act 51	<u>\$ 306,473</u>
Total State of Michigan operating grants	<u>306,473</u>
Other non-operating income	
Local assistance	306,473
Interest	56
Miscellaneous	<u>5</u>
Total other non-operating income	<u>306,534</u>
Total non-operating revenues	<u><u>\$ 613,007</u></u>

Beaver Island Transportation Authority

CAPITAL CONTRIBUTIONS - GRANTS

For the year ended September 30, 2018

Grants received (Federal/State/Local share)

Marine Capital - Federal share

Capital grant #2012-0043/P7 (80/20/0) \$ 26,882

Marine Capital - State share

Capital grant #2017-0018/P1 (0/90/10) 65,937

Capital grant #2017-0018/P4 (0/90/10) 21,072

Capital grant #2012-0043/P5 (0/90/10) 19,329

Capital grant #2012-0043/P6 (0/90/10) 49,947

Capital grant #2012-0043/P7 (80/20/0) 6,721

Total 163,006

Marine Capital - Local share

Capital grant #2017-0018/P1 (0/90/10) 7,327

Capital grant #2017-0018/P4 (0/90/10) 2,341

Capital grant #2012-0043/P5 (0/90/10) 2,149

Capital grant #2012-0043/P6 (0/90/10) 5,549

Total 17,366

Total capital contributions - grants \$ 207,254