

Beaver Island Transportation Authority

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2020

Draft

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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, 2020. 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 \$1,021,000 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 50% 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 \$1,540,000 or 72% of the expenditures as compared to approximately \$606,000 last year. More than half of this expenditure (approximately \$1,033,000 or 67%) is repair and maintenance for major purchases.

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, 2020 are \$3,748,672, a decrease of approximately \$879,000, or 19%, from the previous year's total assets of \$4,627,871.

The Authority's capital assets at September 30, 2020 are \$3,635,809, an increase of approximately \$44,000, or 1%, from the previous year's total capital assets of \$3,591,715.

The Authority's total liabilities at September 30, 2020 are \$87,380, a decrease of approximately \$937,000, or 91%, from the previous year's total liabilities of \$1,024,567.

The Authority's total net position at September 30, 2020 is \$3,661,292, an increase of approximately \$58,000, or 2%, from the previous year's total net position of \$3,603,304.

Changes in Net Position

The Authority's operating expenses for the year ended September 30, 2020 are \$2,149,944, an increase of approximately \$1,007,000, or 88%, from the previous year's operating expenses of \$1,142,960.

The Authority's non-operating revenues for the year ended September 30, 2020 are \$483,667, a decrease of approximately \$124,000, or 20%, from the previous year's total non-operating revenues of \$607,642.

The Authority's capital contributions for the year ended September 30, 2020 are \$1,724,265, an increase of approximately \$1,145,000, or 198%, from the previous year's total capital contributions of \$578,908.

The Authority's increase in net position for the year ended September 30, 2020 is \$57,988. When compared to the prior year's increase in net position of \$43,590, the change in net position increased approximately \$14,000 or 33%.

Capital Assets

During the fiscal year ended September 30, 2020, the Authority's capital assets increased by approximately \$44,000, or 1%, from the previous year. This increase is mostly attributable to capital additions of approximately \$451,000 which is offset by disposals of approximately \$61,000 and depreciation expense of approximately \$407,000.

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.

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 the *Beaver Island Transportation Authority* (the "Authority"), which comprise the statement of net position as of and for the year ended September 30, 2020, 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.

To the Authority Board
Beaver Island Transportation Authority

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 the Beaver Island Transportation Authority as of September 30, 2020 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 19 - 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.

To the Authority Board
Beaver Island Transportation Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, 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 solely 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 effectiveness of the Authority's 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.

January 29, 2021

CERTIFIED PUBLIC ACCOUNTANTS
Traverse City, Michigan

**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 the ***Beaver Island Transportation Authority*** (the "Authority"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 29, 2021.

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 2020-001 to be a material weakness.

To the Authority Board
Beaver Island Transportation Authority

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 2020-002 to be a significant deficiency.

FINDING 2020-001

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 the 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 a Board member's signature is required on all checks.

FINDING 2020-002

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.

To the Authority Board
Beaver Island Transportation Authority

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.

January 29, 2021

CERTIFIED PUBLIC ACCOUNTANTS
Traverse City, Michigan

Beaver Island Transportation Authority

STATEMENT OF NET POSITION

September 30, 2020

ASSETS

CURRENT ASSETS

Cash (Note B)	\$ 71,146
Due from Federal	<u>98,088</u>

Total current assets	169,234
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Capital assets, net (Note C)	<u>3,635,809</u>
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Total assets	<u><u>\$ 3,805,043</u></u>
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LIABILITIES AND NET POSITION

LIABILITIES

Accounts payable	\$ 68,431
Unearned revenue - MEDC grant	38,869
Due to State	<u>36,451</u>

Total liabilities	<u>143,751</u>
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NET POSITION

Invested in capital assets, net of related debt	3,635,809
Unrestricted	<u>25,483</u>

Total net position	<u>3,661,292</u>
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Total liabilities and net position	<u><u>\$ 3,805,043</u></u>
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Beaver Island Transportation Authority

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended September 30, 2020

Operating revenues	\$ -
Operating expenses (Schedule 7)	<u>2,149,944</u>
Total operating loss	(2,149,944)
Non-operating revenues (Schedule 8)	<u>552,861</u>
Net loss before capital contributions	(1,597,083)
Capital contributions - grants (Schedule 9)	<u>1,655,071</u>
Increase in net position	57,988
Net position, beginning of year	<u>3,603,304</u>
Net position, end of year	<u><u>\$ 3,661,292</u></u>

Beaver Island Transportation Authority

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2020

Operating activities	
Cash payments to suppliers and employees	<u>\$ (1,850,958)</u>
Investing activities	
Interest income	<u>1,390</u>
Capital and related financing activities	
State and federal capital grants	963,639
Proceeds from disposal of assets	12,500
Purchase of property and equipment	<u>(450,963)</u>
Net cash from capital and related financing activities	<u>525,176</u>
Non-capital financing activities	
State operating grants	269,485
Local match	<u>210,060</u>
Net cash from non-capital financing activities	<u>479,545</u>
NET CHANGE IN CASH	(844,847)
Cash, beginning of year	<u>915,993</u>
Cash, end of year	<u><u>\$ 71,146</u></u>

Beaver Island Transportation Authority

NOTES TO FINANCIAL STATEMENTS

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The 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, 2020.

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.

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 and investments. No capital money is used to pay for operating expenses.

Cost Allocation Plan

The transit agency has no currently required cost allocation plans; therefore, none were used in the presentation 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 \$1,204,107 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, 2020 the Authority's cash included the following:

Bank deposits \$ 71,146

Custodial Credit Risk - Deposits

In the event of a bank failure, the Authority's bank deposits may not be returned. As of September 30, 2020, the Authority's bank balances of \$71,146 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:

	Beginning Balance	Additions	Disposals	Ending Balance
Ferry and ferry improvements	\$ 6,175,667	\$ 349,383	\$ -	\$ 6,525,050
Dock	1,235,968	-	-	1,235,968
Building and improvements	546,004	46,964	-	592,968
Miscellaneous capital outlays	461,724	-	-	461,724
Vehicles	297,591	48,846	(61,284)	285,153
Machinery and equipment	356,960	5,770	-	362,730
Fence	215,846	-	-	215,846
Other equipment	<u>137,414</u>	<u>-</u>	<u>-</u>	<u>137,414</u>
Total depreciable assets	9,427,174	450,963	(61,284)	9,816,853
Accumulated depreciation	(6,072,379)	(406,869)	61,284	(6,417,964)
New ferry design	<u>236,920</u>	<u>-</u>	<u>-</u>	<u>236,920</u>
Total capital assets, net	<u>\$ 3,591,715</u>	<u>\$ 44,094</u>	<u>\$ -</u>	<u>\$ 3,635,809</u>

Total depreciation expense for the year ended September 30, 2020 was \$406,869.

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.

NOTE E - RETIREMENT BENEFITS

The retirement benefit offered by the Authority is a Simple IRA. The entire amount of \$1,837 was expensed on the books and reported in 50200 Fringe Benefits. The entire sum of \$1,837 was paid during the year ended September 30, 2020, 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 D, to operate the ferry service in exchange for the right to retain a portion of the revenues collected from the operation of the vessel. The management agreement was amended in 2020 reducing BIBCo's local operational match from 50% to 27% for eligible expenses during April 2020 through September 2021. The 23% reduction reflects CARES Act funding.

At September 30, 2020, payables to BIBCo were \$56,389.

NOTE G - COMMITMENTS AND CONTINGENCIES

State's acceptance of OAR report

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.

COVID-19

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The Authority believes it understands the risk associated with COVID-19. The Authority is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to the Authority's operations within and outside of the Authority. The extent to which the pandemic impacts operations will depend on future developments, which are highly uncertain at this time and cannot be predicted.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used by operating activities as of September 30, 2020:

Operating loss	\$ (2,149,944)
Add: Depreciation expense not requiring outlay of cash	406,869
Change in accounts payable	(125,298)
Change in due to State	<u>17,415</u>
Net cash used by operating activities	<u>\$ (1,850,958)</u>

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

Beaver Island Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year ended September 30, 2020

Federal and State Grantor Pass Through 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	\$ 50,932	\$ 8,070	\$ 6,456	\$ 1,614	\$ 59,002	\$ -
Section 70 Ferry Boat									
Construction (80/20/0)	20.205	2017-0018/P7	117,034	49,068	67,966	54,373	13,593	117,034	-
Section 70 Ferry Boat									
Construction (80/20/0)	20.205	2017-0018/P2	245,444	-	245,444	196,355	49,089	245,444	-
Section 70 Ferry Boat									
Construction (80/20/0)	20.205	2017-0018/P5	105,766	-	105,766	84,613	21,153	105,766	-
Section 5311 CARES Act funding (100/0/0)	20.509	2017-0018/P11	125,582	-	125,583	125,583	-	27,495	98,088
Total Department of Transportation			870,361	100,000	552,829	467,380	85,449	554,741	98,088
<u>Michigan Department of Transportation</u>									
Act 51 Operating Assistance (0/100/0)	n/a	2019	335,000	(19,045)	-	-	-	(7,618)	(11,427)
Act 51 Operating Assistance (0/100/0)	n/a	2020	269,485	-	269,485	-	269,485	294,509	(25,024)
Total Act 51 Operating Assistance			604,485	(19,045)	269,485	-	269,485	286,891	(36,451)
Act 51 Capital Grants (0/90/10)	n/a	2017-0018/P1	200,000	-	48,842	-	48,842	48,842	-
Act 51 Capital Grants (0/90/10)	n/a	2017-0018/P4	200,000	10,386	120,137	-	120,137	130,523	-
Act 51 Capital Grants (0/90/10)	n/a	2012-0043/P6	222,222	-	158,222	-	158,222	158,222	-
Act 51 Capital Grants (0/90/10)	n/a	2017-0018/P8	444,444	-	3,842	-	3,842	3,842	-
Total Act 51 Capital Grants			1,066,666	10,386	331,043	-	331,043	341,429	-
Total Federal and State financial assistance			\$ 2,541,512	\$ 91,341	\$ 1,153,357	\$ 467,380	\$ 685,977	\$ 1,183,061	\$ 61,637

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE REVENUE REPORT

For the year ended September 30, 2020

Code	Description	
409:	Local revenue	
40910	Non-operating local assistance	\$ 143,903
411:	State formula and contracts	
41101	State operating assistance	269,485
413:	CARES Act	
41361	CARES Act	125,583
414:	Other revenue	
41400	Interest income	1,390
41500	Miscellaneous income	12,500
Total revenues		\$ <u>552,861</u>

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE EXPENSE REPORT

For the year ended September 30, 2020

Code	Description	Operations	Maintenance	General Admin.	Total
501:	Labor				
50101	Salaries and wages	\$ -	\$ -	\$ 61,233	\$ 61,233
502:	Fringe benefits				
50200	Fringe benefits	-	-	16,231	16,231
503:	Services				
50302	Advertising fees	-	-	604	604
50305	Audit cost	-	-	6,500	6,500
50399	Other services (Legal/COVID-19 cleaning/bank fees)	-	-	37,433	37,433
504:	Materials and supplies				
50401	Fuel and lubricants	331,094	-	-	331,094
50404	Major purchases	1,032,786	-	-	1,032,786
50499	Other materials and supplies	173,230	-	3,121	176,351
505:	Utilities				
50500	Utilities	-	-	26,993	26,993
506:	Insurance				
50603	Liability insurance	-	-	17,887	17,887
50699	Other insurance	35,357	-	-	35,357
509:	Miscellaneous expenses				
50903	Subscriptions	-	-	292	292
50999	Other miscellaneous expenses	-	-	69	69
512:	Operating leases and rentals				
51200	Operating leases and rentals	-	-	245	245
513:	Depreciation				
51300	Depreciation	406,869	-	-	406,869
550:	Ineligible expenses				
55007	Ineligible depreciation	406,869	-	-	406,869
576:	Ineligible expenses				
57604	Other ineligible operating expenses paid by capital contract	1,204,107	-	-	1,204,107
Total expenses					\$ 2,149,944
Total ineligible expenses					1,610,975
Total eligible expenses					\$ 538,969

Beaver Island Transportation Authority

OPERATING ASSISTANCE CALCULATION

For the year ended September 30, 2020

	<u>State Operating Assistance</u>
Expenses	
Labor	\$ 61,233
Fringe benefits	16,231
Services	44,537
Materials and supplies	1,540,231
Utilities	26,993
Casualty and liability costs	53,244
Miscellaneous	361
Leases and rentals	245
Depreciation	<u>406,869</u>
Total expenses	<u>2,149,944</u>
Less ineligible expenses	
Depreciation	406,869
Capital grant expenses	
MEDC grant	829,304
Grant #2017-0018/P2	122,170
Grant #2017-0018/P4	95,003
Grant #2017-0018/P5	72,926
Grant #2017-0018/P7	67,966
Grant #2012-0043/P7	8,070
Grant #2017-0018/P8	4,269
Grant #2017-0018/P1	4,117
Grant #2017-0018/P6	<u>281</u>
Total ineligible expenses	<u>1,610,975</u>
Net eligible expenses	<u>\$ 538,969</u>
Maximum reimbursement (50%)	<u>\$ 269,485</u>

Beaver Island Transportation Authority

SCHEDULE OF OPERATING EXPENSES

For the year ended September 30, 2020

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total</u>
Labor:				
Operating salaries and wages	\$ -	\$ -	\$ 61,233	\$ 61,233
Fringe benefits:				
Other fringe benefits	-	-	16,231	16,231
Services:				
Advertising	-	-	604	604
Audit	-	-	6,500	6,500
Other services	-	-	37,433	37,433
Material and supplies:				
Fuel and lubricants	331,094	-	-	331,094
Major purchases	1,032,786	-	-	1,032,786
Other supplies	173,230	-	3,121	176,351
Utilities:				
Utilities	-	-	22,908	22,908
Telephone	-	-	4,085	4,085
Casualty and liability cost:				
Liability and property damage insurance	-	-	17,887	17,887
Insurance - hull	35,357	-	-	35,357
Miscellaneous expenses:				
Subscriptions	-	-	292	292
Other miscellaneous	-	-	69	69
Leases and rentals	-	-	245	245
Depreciation	<u>406,869</u>	<u>-</u>	<u>-</u>	<u>406,869</u>
Total operating expenses	<u>\$ 1,979,336</u>	<u>\$ -</u>	<u>\$ 170,608</u>	<u>\$ 2,149,944</u>

Beaver Island Transportation Authority

NON-OPERATING REVENUES

For the year ended September 30, 2020

State of Michigan operating grants	
State Operating Assistance - Act 51	<u>\$ 269,485</u>
Federal operating assistance revenue	
CARES Act grant #2017-0018/P11 (100/0/0)	<u>125,583</u>
Other non-operating income	
Local assistance	143,903
Interest	1,390
Miscellaneous	<u>12,500</u>
Total other non-operating income	<u>157,793</u>
Total non-operating revenues	<u><u>\$ 552,861</u></u>

Beaver Island Transportation Authority

CAPITAL CONTRIBUTIONS - GRANTS

For the year ended September 30, 2020

Grants received (Federal/State/Local share)

Marine Capital - Federal share

Capital grant #2017-0018/P2 (80/20/0)	\$ 196,355
Capital grant #2017-0018/P5 (80/20/0)	84,613
Capital grant #2017-0018/P7 (80/20/0)	54,373
Capital grant #2012-0043/P7 (80/20/0)	<u>6,456</u>

Total	<u>341,797</u>
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Marine Capital - State share

Capital grant #2017-0018/P6 (0/90/10)	158,222
Capital grant #2017-0018/P4 (0/90/10)	120,137
Capital grant #2017-0018/P1 (0/90/10)	48,842
Capital grant #2017-0018/P8 (0/90/10)	3,842
Capital grant #2012-0043/P2 (80/20/0)	49,089
Capital grant #2012-0043/P5 (80/20/0)	21,153
Capital grant #2017-0018/P7 (80/20/0)	13,593
Capital grant #2012-0043/P7 (80/20/0)	<u>1,614</u>

Total	<u>416,492</u>
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Marine Capital - Local share

Capital grant #2017-0018/P1 (0/90/10)	36,122
Capital grant #2017-0018/P6 (0/90/10)	17,580
Capital grant #2017-0018/P4 (0/90/10)	13,349
Capital grant #2017-0018/P8 (0/90/10)	<u>427</u>

Total	<u>67,478</u>
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MEDC grant

<u>829,304</u>

Total capital contributions - grants	<u><u>\$ 1,655,071</u></u>
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