

Beaver Island Transportation Authority

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

September 30, 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the 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, 2022. 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 \$467,000 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 \$821,000 or 56% of the expenditures as compared to approximately \$439,000 last year. More than half of this expenditure (approximately \$588,000 or 72%) is fuel and lubricants for the vessels.

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 describes 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, 2022 are \$3,042,589, a decrease of approximately \$371,000, or 11%, from the previous year's total assets of \$3,413,123.

The Authority's capital assets at September 30, 2022 are \$2,882,069, a decrease of approximately \$370,000, or 11%, from the previous year's total capital assets of \$3,251,771.

The Authority's total liabilities at September 30, 2022 are \$36,228, a decrease of approximately \$95,000, or 72%, from the previous year's total liabilities of \$131,230.

The Authority's total net position at September 30, 2022 is \$3,006,361, a decrease of approximately \$275,000, or 8%, from the previous year's total net position of \$3,281,893.

Changes in Net Position

The Authority's operating expenses for the year ended September 30, 2022 are \$1,463,177, an increase of approximately \$363,000, or 33%, from the previous year's operating expenses of \$1,100,471.

The Authority's non-operating revenues for the year ended September 30, 2022 are \$906,503, an increase of approximately \$382,000, or 73%, from the previous year's total non-operating revenues of \$524,492.

The Authority's capital contributions for the year ended September 30, 2022 are \$281,142, an increase of approximately \$85,000, or 43%, from the previous year's total capital contributions of \$196,580.

The Authority's decrease in net position for the year ended September 30, 2022 is \$275,532. When compared to the prior year's decrease in net position of \$379,399, the change in net position decreased approximately \$104,000 or 27%.

Capital Assets

During the fiscal year ended September 30, 2022, the Authority's capital assets decreased by approximately \$370,000, or 11%, from the previous year. This decrease is mostly attributable to depreciation expense on these assets of approximately \$430,000, which is offset by capital asset additions of approximately \$60,000.

Factors Bearing on the Authority's Future

At the time these financial statements were prepared and audited, the Authority was aware of circumstances that could significantly affect its financial health in the future:

- A study will take place over the next year to determine possible alternative fuels for a new vessel. Funding is being secured for a new vessel and once the study is complete an estimate of the total cost of the new vessel can be determined.
- Dock owned by BIBCo and leased by BITA has damage due to high waters.
- Aging assets are not able to be replaced because of supply chain shortages.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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.



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Business Advisors Since 1973

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INDEPENDENT AUDITOR'S REPORT

To the Authority Board
Beaver Island Transportation Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the ***Beaver Island Transportation Authority*** (the "Authority"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2022 and the respective 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

To the Authority Board
Beaver Island Transportation Authority

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.

To the Authority Board
Beaver Island Transportation Authority

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages *i* through *iii* be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplemental 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 21 - 28, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information 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 8, 2023, 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.

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

February 8, 2023



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**INDEPENDENT AUDITOR'S 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, 2022, 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 8, 2023.

Report on 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 2022-001 to be a material weakness.

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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 2022-002 to be a significant deficiency.

FINDING 2022-001

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.

Recommendation: The Authority board should continue its financial oversight and involvement due to the inherent weakness in the internal controls resulting from the lack of segregation of duties. The Authority has determined this to be a cost effective condition at this time.

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 2022-002

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 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.

To the Authority Board
Beaver Island Transportation Authority

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.

Recommendation: Once a draft of the financial statements is available, the Authority should perform a detailed review of the draft to address any questions or discrepancies from their internal books and records. Upon completion, the Authority should approve the financial statements and notes to accept responsibility for their content. Additionally, management should be proactive to enhance their training and expertise in accounting and external financial reporting by attending relevant trainings to demonstrate their ability to accept responsibility for the financial statements and notes. Alternatively, the Authority may contract with another qualified accounting firm to assist in the preparation of the financial statements and related notes to alleviate the assistance provided by the independent external auditors.

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.

Report on 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*.

Management's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described above. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

To the Authority Board
Beaver Island Transportation Authority

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

Certified Public Accountants
Traverse City, Michigan

February 8, 2023

Beaver Island Transportation Authority

STATEMENT OF NET POSITION

September 30, 2022

ASSETS	
CURRENT ASSETS	
Cash (Note B)	\$ 22,783
Accounts receivable	3,352
Due from Federal (Note C)	34,067
Due from State	94,118
Deposits	<u>6,200</u>
Total current assets	160,520
Capital assets, net (Note D)	<u>2,882,069</u>
Total assets	<u><u>\$ 3,042,589</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	<u>\$ 36,228</u>
NET POSITION	
Net investment in capital assets	2,882,069
Unrestricted	<u>124,292</u>
Total net position	<u>3,006,361</u>
Total liabilities and net position	<u><u>\$ 3,042,589</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, 2022

Operating revenues	\$ -
Operating expenses (Schedule 7)	<u>1,463,177</u>
Total operating loss	(1,463,177)
Non-operating revenues (Schedule 8)	<u>906,503</u>
Net loss before capital contributions	(556,674)
Capital contributions - grants (Schedule 9)	<u>281,142</u>
Decrease in net position	(275,532)
Net position, beginning of year	<u>3,281,893</u>
Net position, end of year	<u><u>\$ 3,006,361</u></u>

Beaver Island Transportation Authority

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2022

Operating activities	
Cash payments to suppliers and employees	<u>\$ (1,128,443)</u>
Investing activities	
Interest income	<u>51</u>
Capital and related financing activities	
State and federal capital grants	364,520
Purchase of property and equipment	(66,234)
Refunds and credits received	<u>5,550</u>
Net cash from capital and related financing activities	<u>303,836</u>
Non-capital financing activities	
State operating grants	309,274
Federal operating grants	107,904
Local match	253,341
Fuel surcharge	<u>125,994</u>
Net cash from non-capital financing activities	<u>796,513</u>
NET CHANGE IN CASH	(28,043)
Cash, beginning of year	<u>50,826</u>
Cash, end of year	<u><u>\$ 22,783</u></u>

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

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, 2022.

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) net investment in capital assets (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. Revenues are recognized when earned and expenses are recognized when 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
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 \$221,107 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, 2022 the Authority's cash included the following:

Bank deposits	<u>\$ 22,783</u>
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Custodial Credit Risk - Deposits

In the event of a bank failure, the Authority's bank deposits may not be returned. As of September 30, 2022, the Authority's bank balances of \$107,720 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 - DUE FROM FEDERAL AND STATE

At September 30, 2022, the Authority's due from (to) federal and state receivables are comprised of the following:

<u>Grant (Federal share/state share/local share)</u>	<u>Due from Federal</u>	<u>Due from State</u>	<u>Total</u>
CRRSAA Act 2022-0017/P1 (100/0/0)	\$ 34,067	\$ -	\$ 34,067
2022 Operating assistance (0/100/0)	<u>-</u>	<u>94,118</u>	<u>94,118</u>
Total due from	<u>\$ 34,067</u>	<u>\$ 94,118</u>	<u>\$ 128,185</u>

NOTE D - 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	\$ 5,904,777	\$ 60,034	\$ -	\$ 5,964,811
Dock	1,235,968	-	-	1,235,968
Building and improvements	592,968	-	-	592,968
Vehicles	266,653	-	-	266,653
Machinery and equipment	197,801	-	-	197,801
Fence	215,846	-	-	215,846
Other equipment	<u>64,939</u>	<u>-</u>	<u>-</u>	<u>64,939</u>
Total depreciable assets	8,478,952	60,034	-	8,538,986
Accumulated depreciation	(5,464,101)	(429,736)	-	(5,893,837)
New ferry design	<u>236,920</u>	<u>-</u>	<u>-</u>	<u>236,920</u>
Total capital assets, net	<u>\$ 3,251,771</u>	<u>\$ (369,702)</u>	<u>\$ -</u>	<u>\$ 2,882,069</u>

Total depreciation expense for the year ended September 30, 2022 was \$429,736.

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

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - 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 F - RETIREMENT BENEFITS

The retirement benefit offered by the Authority is a Simple IRA. The entire amount of \$1,969 was expensed on the books and reported in 50200 Fringe Benefits. The entire sum of \$1,969 was paid during the year ended September 30, 2022, 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 G - 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 E, 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 2021 reducing BIBCo's local operational match from 50% to 35% for eligible expenses during the year ended September 30, 2021. The 15% reduction reflects supplemental funds provided by the CRRSAA Act.

At September 30, 2022, receivables from BIBCo were \$3,352.

NOTE H - 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.

NOTE I - RISKS AND UNCERTAINTIES

COVID-19

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. Throughout the pandemic, the federal government has provided the Authority with supplemental funds for increased operational costs to comply with health and safety protocols. Changes to funding and operations are expected to continue into the next fiscal year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE J - STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used by operating activities as of September 30, 2022:

Operating loss	\$ (1,463,177)
Add: Depreciation expense not requiring outlay of cash	429,736
Change in accounts payable	<u>(95,002)</u>
Net cash used by operating activities	<u><u>\$ (1,128,443)</u></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, 2022

Federal and State Grantor Pass Through Grantor Program Title	Federal Assistance Listing	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	2017-0018/P9	\$ 114,100	\$ 42,110	\$ -	\$ -	\$ -	\$ 42,110	\$ -
Metropolitan Transportation Planning and State and									
Non-Metropolitan Planning and Research									
Section 5304 Capital (80/20/0)	20.505	2017-0018/P12	85,000	34,701	18,106	14,485	3,621	52,807	-
Formula Grants for Rural Areas									
Section 5311 CARES Act (100/0/0)	20.509	2017-0018/P14	125,582	18,248	-	-	-	18,248	-
Section 5311 CRRSAA Act (100/0/0)	20.509	2022-0017/P1	123,723	-	123,723	123,723	-	89,656	34,067
Total Formula Grants for Rural Areas			249,305	18,248	123,723	123,723	-	107,904	34,067
Total United States Department of Transportation			448,405	95,059	141,829	138,208	3,621	202,821	34,067
<u>Michigan Department of Transportation</u>									
Act 51 Operating Assistance (0/100/0)	n/a	2022	403,392	-	403,392	-	403,392	309,274	94,118
Act 51 Operating Assistance (0/100/0)	n/a	2021	270,330	(10,398)	-	-	-	(10,398)	-
Act 51 Operating Assistance (0/100/0)	n/a	2020	269,485	(12,517)	-	-	-	(12,517)	-
Act 51 Operating Assistance (0/100/0)	n/a	2018	335,000	(34)	-	-	-	(34)	-
Total Act 51 Operating Assistance			1,278,207	(22,949)	403,392	-	403,392	286,325	94,118
FY20 Marine Capital (0/90/10)	n/a	2017-0018/P8	400,000	6,044	230,454	-	230,454	236,498	-
FY19 Marine Capital (0/90/10)	n/a	2017-0018/P6	200,000	21,980	6,278	-	6,278	28,258	-
Total Marine Capital			600,000	28,024	236,732	-	236,732	264,756	-
Total Federal and State financial assistance			<u>\$ 2,326,612</u>	<u>\$ 100,134</u>	<u>\$ 781,953</u>	<u>\$ 138,208</u>	<u>\$ 643,745</u>	<u>\$ 753,902</u>	<u>\$ 128,185</u>

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE REVENUE REPORT

For the Year Ended September 30, 2022

Code	Description	
401:	Farebox revenue	
40100	Passenger fares <i>(Fuel surcharge)</i>	\$ 144,883
409:	Local revenue	
40910	Non-operating local assistance	228,904
411:	State formula and contracts	
41101	State operating assistance	403,392
413:	CRRSAA Act	
41362	CRRSAA Act	123,723
414:	Other revenue	
41400	Interest income	51
440:	Other revenue	
44000	Refunds and credits	5,550
Total revenues		\$ <u>906,503</u>

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE EXPENSE REPORT

For the Year Ended September 30, 2022

Code	Description	Operations	Maintenance	General Admin.	Total
501:	Labor				
50101	Salaries and wages	\$ -	\$ -	\$ 65,641	\$ 65,641
502:	Fringe benefits				
50200	Fringe benefits	-	-	18,413	18,413
503:	Services				
50302	Advertising	-	-	723	723
50305	Audit	-	-	8,900	8,900
50399	Other services <i>(Bldg repairs, snow plowing/ cleaning, freight, consulting, legal, bank charges)</i>	-	7,010	22,167	29,177
504:	Materials and supplies				
50401	Fuel and lubricants	587,557	-	-	587,557
50404	Major purchases <i>(Vessel maintenance and repairs/ small tools)</i>	228,476	2,319	-	230,795
50499	Other materials and supplies <i>(Office supplies, postage)</i>	-	-	2,976	2,976
505:	Utilities				
50500	Utilities	-	-	34,777	34,777
506:	Insurance				
50603	Liability insurance	-	-	15,473	15,473
50699	Other insurance	37,613	-	-	37,613
509:	Miscellaneous expenses				
50902	Travel, meetings and training	-	-	1,024	1,024
50903	Subscriptions	-	-	71	71
512:	Operating leases and rentals				
51200	Operating leases and rentals <i>(Copy machine)</i>	-	-	301	301
513:	Depreciation				
51300	Depreciation	429,736	-	-	429,736

Beaver Island Transportation Authority

NONURBAN FERRY SERVICE EXPENSE REPORT - Continued

For the Year Ended September 30, 2022

Code	Description	Operations	Maintenance	General Admin.	Total
540:	Ineligible expenses				
54000	Ineligible refunds and credits	-	-	5,550	5,550
550:	Ineligible expenses				
55007	Ineligible depreciation	429,736	-	-	429,736
576:	Ineligible expenses				
57604	Other ineligible operating expenses paid by capital contract	20,425	200,682	-	221,107
Total expenses					\$ 1,463,177
Total ineligible expenses					<u>656,393</u>
Total eligible expenses					<u>\$ 806,784</u>

Beaver Island Transportation Authority

OPERATING ASSISTANCE CALCULATION

For the Year Ended September 30, 2022

	<u>State Operating Assistance</u>
Expenses	
Labor	\$ 65,641
Fringe benefits	18,413
Services	38,800
Materials and supplies	821,328
Utilities	34,777
Casualty and liability costs	53,086
Miscellaneous	1,095
Leases and rentals	301
Depreciation	<u>429,736</u>
Total expenses	<u>1,463,177</u>
Less ineligible expenses	
Depreciation	429,736
Capital grant expenses	
Grant #2017-0018/P12	18,106
Grant #2017-0018/P8	203,001
Other ineligible expenses	<u>5,550</u>
Total ineligible expenses	<u>656,393</u>
Net eligible expenses	<u>\$ 806,784</u>
Maximum reimbursement (50%)	<u>\$ 403,392</u>

Beaver Island Transportation Authority

SCHEDULE OF OPERATING EXPENSES

For the Year Ended September 30, 2022

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total</u>
Labor:				
Operating salaries and wages	\$ -	\$ -	\$ 65,641	\$ 65,641
Fringe benefits:				
Other fringe benefits	-	-	18,413	18,413
Services:				
Advertising	-	-	723	723
Audit	-	-	8,900	8,900
Other services	-	7,010	22,167	29,177
Material and supplies:				
Fuel and lubricants	587,557	-	-	587,557
Major purchases	228,476	2,319	-	230,795
Other materials and supplies	-	-	2,976	2,976
Utilities:				
Utilities	-	-	30,714	30,714
Telephone	-	-	4,013	4,013
Sanitation	-	-	50	50
Casualty and liability cost:				
Liability and property damage insurance	-	-	15,473	15,473
Insurance - hull	37,613	-	-	37,613
Miscellaneous expenses:				
Travel	-	-	1,024	1,024
Subscriptions	-	-	71	71
Leases and rentals	-	-	301	301
Depreciation	<u>429,736</u>	<u>-</u>	<u>-</u>	<u>429,736</u>
Total operating expenses	<u>\$ 1,283,382</u>	<u>\$ 9,329</u>	<u>\$ 170,466</u>	<u>\$ 1,463,177</u>

Beaver Island Transportation Authority

NON-OPERATING REVENUES

For the Year Ended September 30, 2022

State of Michigan operating grants	
State Operating Assistance - Act 51	<u>\$ 403,392</u>
Federal operating assistance revenue	
CRRSAA Act grant #2022-0017/P1 (100/0/0)	<u>123,723</u>
Other non-operating income	
Local assistance	228,904
Interest	51
Farebox revenue (fuel surcharge)	144,883
Refunds and credits	<u>5,550</u>
Total other non-operating income	<u>379,388</u>
Total non-operating revenues	<u><u>\$ 906,503</u></u>

Beaver Island Transportation Authority

CAPITAL CONTRIBUTIONS - GRANTS

For the Year Ended September 30, 2022

Grants received (Federal/State/Local share)	
Marine Capital - Federal share	
Capital grant #2017-0018/P12 (80/20/0)	<u>\$ 14,485</u>
Marine Capital - State share	
Capital grant #2017-0018/P12 (80/20/0)	3,621
Capital grant #2017-0018/P8 (0/90/10)	230,454
Capital grant #2017-0018/P6 (0/90/10)	<u>6,278</u>
Total State share	<u>240,353</u>
Marine Capital - Local share	
Capital grant #2017-0018/P8 (0/90/10)	25,606
Capital grant #2017-0018/P6 (0/90/10)	<u>698</u>
Total Local share	<u>26,304</u>
Total capital contributions - grants	<u><u>\$ 281,142</u></u>