

**Beaver Island Transportation Authority**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

September 30, 2023

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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, 2023, 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, 2023 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.

#### ***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 audit 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 5 through 7 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 24 - 31, 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 January 29, 2024, 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

January 29, 2024

## **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, 2023. 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 decreased approximately \$116,000 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 \$688,000 or 53% of the expenditures as compared to approximately \$821,000 last year. More than half of this expenditure (approximately \$606,000 or 89%) 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, 2023 are \$9,800,891, an increase of approximately \$6,758,000, or 222%, from the previous year's total assets of \$3,042,589. The Authority received state funding of \$7 million earmarked for future ferry design and is unspent as of September 30, 2023.

The Authority's capital assets at September 30, 2023 are \$2,600,527, a decrease of approximately \$282,000, or 10%, from the previous year's total capital assets of \$2,882,069.

The Authority's total liabilities at September 30, 2023 are \$7,032,042, an increase of approximately \$6,996,000, or 19,311%, from the previous year's total liabilities of \$36,228. The increase relates to the \$7 million in state funding received for future ferry design, which is recorded as unearned revenue until it is spent.

The Authority's total net position at September 30, 2023 is \$2,768,849, a decrease of approximately \$238,000, or 8%, from the previous year's total net position of \$3,006,361.

### **Changes in Net Position**

The Authority's operating expenses for the year ended September 30, 2023 are \$1,309,052, a decrease of approximately \$154,000, or 11%, from the previous year's operating expenses of \$1,463,177.

The Authority's non-operating revenues for the year ended September 30, 2023 are \$877,748, a decrease of approximately \$29,000, or 3%, from the previous year's total non-operating revenues of \$906,503.

The Authority's capital contributions for the year ended September 30, 2023 are \$193,792, a decrease of approximately \$87,000, or 31%, from the previous year's total capital contributions of \$281,142.

The Authority's decrease in net position for the year ended September 30, 2023 is \$237,512. When compared to the prior year's decrease in net position of \$275,532, the decrease in net position was reduced by approximately \$38,000 or 14%.

### **Capital Assets**

During the fiscal year ended September 30, 2023, the Authority's capital assets decreased by approximately \$282,000, or 10%, from the previous year. This decrease is mostly attributable to depreciation expense on these assets of approximately \$405,000, which if offset by capital asset additions of approximately \$124,000.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

### **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.
- \$14 million has been allocated in the state budget for funding future ferry designs, of which the Authority has received \$7 million at year-end. It remains unclear when the remaining \$7 million will be received.
- Dock owned by BIBCo and leased by BITA has damage due to high waters.
- Aging assets are not able to be replaced timely because of supply chain shortages and inflationary pricing.

### **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.



**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, 2023, 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, 2024.

***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) as a basis for designing 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 certain deficiencies in internal control that we consider to be a material weaknesses and significant deficiencies.

*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 2023-001 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 2023-002 to be a significant deficiency.

#### **FINDING 2023-001**

##### **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 2023-002**

##### **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 financial statements. 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

January 29, 2024

# Beaver Island Transportation Authority

## STATEMENT OF NET POSITION

September 30, 2023

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash (Note B)	\$ 87,675
Investments (Note B)	7,018,915
Accounts receivable	14,145
Due from Federal (Note C)	77,624
Due from State (Note C)	<u>2,005</u>
Total current assets	7,200,364
Capital assets, net (Note D)	<u>2,600,527</u>
Total assets	<u><u>\$ 9,800,891</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 32,042
Unearned revenue - MEDC grant	<u>7,000,000</u>
Total liabilities	<u>7,032,042</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,600,527
Unrestricted	<u>168,322</u>
Total net position	<u>2,768,849</u>
Total liabilities and net position	<u><u>\$ 9,800,891</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, 2023

Operating revenues	\$ -
Operating expenses (Schedule 7)	<u>1,309,052</u>
Total operating loss	(1,309,052)
Non-operating revenues (Schedule 8)	<u>877,748</u>
Net loss before capital contributions	(431,304)
Capital contributions - grants (Schedule 9)	<u>193,792</u>
<b>Decrease in net position</b>	(237,512)
Net position, beginning of year	<u>3,006,361</u>
Net position, end of year	<u><u>\$ 2,768,849</u></u>

# Beaver Island Transportation Authority

## STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2023

<b>Operating activities</b>	
Cash payments to suppliers and employees	<u>\$ (907,868)</u>
<b>Investing activities</b>	
Purchase of investments	(7,018,915)
Interest income	<u>19,662</u>
Net cash provided by investing activities	<u>(6,999,253)</u>
<b>Capital and related financing activities</b>	
State and federal capital grants	7,227,578
Purchase of property and equipment	(117,628)
Refunds and credits received	<u>2,745</u>
Net cash from capital and related financing activities	<u>7,112,695</u>
<b>Non-capital financing activities</b>	
State operating grants	416,612
Federal operating grants	149,575
Local match	268,762
Fuel surcharge	<u>24,369</u>
Net cash from non-capital financing activities	<u>859,318</u>
<b>NET CHANGE IN CASH</b>	64,892
Cash, beginning of year	<u>22,783</u>
Cash, end of year	<u><u>\$ 87,675</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, 2023.

#### *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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The Authority has no direct customers, therefore, has no operating revenues. Operating expenses for proprietary funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### ***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.

### ***Investments***

The Authority's investments consist of funds held in an external investment pool, and are carried at amortized cost, which approximates fair value.

NOTES TO FINANCIAL STATEMENTS - Continued

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

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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

***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 \$69,964 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.

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.

***Unearned Revenue***

Unearned revenue arises when resources are received by the Authority before it has legal claim to them. In subsequent periods, when revenue recognition criteria are met, or when the Authority has a legal claim to the resources, revenue is recognized.

***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.

***Subsequent Events***

The Authority is negotiating a new management and operating agreement, and the existing agreement expired December 21, 2023. See Note H for additional information.

The Authority has evaluated subsequent events and transactions for potential recognition and disclosure through January 29, 2024, the date the financial statements were available to be issued.

**NOTE B - CASH AND INVESTMENTS**

At September 30, 2023 the Authority's cash and investments included the following:

Bank deposits	\$ 87,675
Investments	<u>7,018,915</u>
Total	<u>\$ 7,106,590</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Custodial Credit Risk - Deposits*

In the event of a bank failure, the Authority's bank deposits may not be returned. As of September 30, 2023, the Authority's bank balances of \$123,768 were fully insured by the Federal Deposit Insurance Corporation.

The State of Michigan's investment policy restricts the Authority's deposits 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.

### *Investments*

The Authority's investment policy states the Authority may invest in the following: (1) direct obligations of the United States and obligations the principal and interest of which are unconditionally guaranteed by the United States; (2) certificates of deposit issued or bank accounts in any bank, trust company or savings institutions whose deposits are insured by FDIC or federal savings and loan insurance company; (3) prime commercial paper having the highest rating given by a rating service which the department of treasury determines rates the majority of the bond and note issues of the state; and (4) repurchase agreements with any bank or trust company which is a member of the FDIC and which are secured by any of the types of securities which are obligations described in (1), (2) or (3) above.

The Authority's investments are held in the Michigan CLASS investment pool, which is a stable net asset value government investment pool, and are carried at amortized cost and not subject to withdrawal restrictions. The investment pool was rated AAAM by S&P Global. The pool is uninsured but fully collateralized by United States securities.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE C - DUE FROM FEDERAL AND STATE**

At September 30, 2023, the Authority's due from (to) federal and state receivables are comprised of the following:

Grant (Federal share/state share/local share)	Due from Federal	Due from State	Total
Capital grant 2017-0018/P9 (80/20/0)	\$ 2,205	\$ 551	\$ 2,756
Capital grant 2022-0017/P4 (80/20/0)	10,320	2,580	12,900
Operating assistance - ARPA 2022-0017/P6 (100/0/0)	65,099	-	65,099
Operating assistance 2023 (0/100/0)	-	(2,734)	(2,734)
Operating assistance 2022 (0/100/0)	-	1,608	1,608
Total due from Federal and State	\$ 77,624	\$ 2,005	\$ 79,629

**NOTE D - CAPITAL ASSETS**

Capital assets consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Ferry and ferry improvements	\$ 5,964,811	\$ -	\$ -	\$ 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	123,828	-	321,629
Fence	215,846	-	-	215,846
Other equipment	64,939	-	-	64,939
Total depreciable assets	8,538,986	123,828	-	8,662,814
Accumulated depreciation	(5,893,837)	(405,370)	-	(6,299,207)
New ferry design	236,920	-	-	236,920
Total capital assets, net	\$ 2,882,069	\$ (281,542)	\$ -	\$ 2,600,527

Total depreciation expense for the year ended September 30, 2023 was \$405,370.

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 - UNEARNED REVENUES**

The Authority received \$7,000,000 in State funds intended for the future design and construction of a new ferry. As of September 30, 2023, no expenditures have been incurred and therefore, the funds are reported as unearned revenues.

### **NOTE F - 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 G - RETIREMENT BENEFITS**

The retirement benefit offered by the Authority is a Simple IRA. The entire amount of \$2,060 was expensed on the books and reported in 50200 Fringe Benefits. The entire sum of \$2,060 was paid during the year ended September 30, 2023, 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 H - 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 F, 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 to reduce BIBCo's local operational match from 50% to 32% for eligible expenses for the year ended September 30, 2023. The 18% reduction reflects supplemental funds provided by an operating grant.

At September 30, 2023, receivables from BIBCo were \$14,145.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE I - 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 J - STATEMENT OF CASH FLOWS**

Reconciliation of operating loss to net cash used by operating activities as of September 30, 2023:

Operating loss	\$ (1,309,052)
Add: Depreciation expense not requiring outlay of cash	405,370
Change in accounts payable	<u>(4,186)</u>
Net cash used by operating activities	<u>\$ (907,868)</u>

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



## Beaver Island Transportation Authority

### SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2023

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	\$ -	\$ 12,821	\$ 10,257	\$ 2,564	\$ 10,065	\$ 2,756
Metropolitan Transportation Planning and State and									
Non-Metropolitan Planning and Research									
Section 5304 (80/20/0)	20.505	2022-0017/P4	90,000	-	12,900	10,320	2,580	-	12,900
Formula Grants for Rural Areas									
Section 5311 Operating - CRRSAA Act									
(100/0/0)	20.509	2022-0017/P1	123,723	34,067	-	-	-	34,067	-
Section 5311 Operating - ARPA									
(100/0/0)	20.509	2022-0017/P6	180,672	-	149,575	149,575	-	84,476	65,099
Section 5311 Capital (80/20/0)									
	20.509	2017-0018/P13	40,000	-	40,000	32,000	8,000	40,000	-
Section 5311 Capital (100/0/0)									
	20.509	2017-0018/P16	56,250	-	56,250	56,250	-	56,250	-
Total Formula Grants for Rural Areas			400,645	34,067	245,825	237,825	8,000	214,793	65,099
Total United States Department of Transportation			604,745	34,067	271,546	258,402	13,144	224,858	80,755
<u>Michigan Department of Transportation</u>									
Act 51 Operating Assistance (0/100/0)									
	n/a	2023	415,486	-	415,486	-	415,486	418,220	(2,734)
Act 51 Operating Assistance (0/100/0)									
	n/a	2022	403,392	94,118	-	-	-	92,510	1,608
Total Act 51 Operating Assistance			818,878	94,118	415,486	-	415,486	510,730	(1,126)
FY20 Marine Capital (0/90/10)									
	n/a	2017-0018/P8	400,000	-	64,639	-	64,639	64,639	-
Total Federal and State financial assistance			<u>\$ 1,823,623</u>	<u>\$ 128,185</u>	<u>\$ 751,671</u>	<u>\$ 258,402</u>	<u>\$ 493,269</u>	<u>\$ 800,227</u>	<u>\$ 79,629</u>

**Beaver Island Transportation Authority**

## NONURBAN FERRY SERVICE REVENUE REPORT

For the Year Ended September 30, 2023

<b>Code</b>	<b>Description</b>	
<b>401:</b>	<b>Farebox revenue</b>	
40100	Passenger fares <i>(Fuel surcharge)</i>	\$ 24,369
<b>409:</b>	<b>Local revenue</b>	
40910	Non-operating local assistance	265,911
<b>411:</b>	<b>State formula and contracts</b>	
41101	State operating assistance	415,486
<b>413:</b>	<b>Federal Contracts</b>	
41363	ARPA Act	149,575
<b>414:</b>	<b>Other revenue</b>	
41400	Interest income	19,662
<b>440:</b>	<b>Other revenue</b>	
44000	Refunds and credits	2,745
<b>Total revenues</b>		<b>\$ <u>877,748</u></b>

## Beaver Island Transportation Authority

## NONURBAN FERRY SERVICE EXPENSE REPORT

For the Year Ended September 30, 2023

Code	Description	Operations	Maintenance	General Admin.	Total
<b>501:</b>	<b>Labor</b>				
50101	Salaries and wages	\$ -	\$ -	\$ 68,670	\$ 68,670
<b>502:</b>	<b>Fringe benefits</b>				
50200	Fringe benefits	-	-	19,320	19,320
<b>503:</b>	<b>Services</b>				
50302	Advertising	-	-	547	547
50305	Audit	-	-	10,600	10,600
50399	Other services <i>(Bldg repairs, snow plowing/ cleaning, freight, consulting, legal, bank charges)</i>	-	10,120	19,363	29,483
<b>504:</b>	<b>Materials and supplies</b>				
50401	Fuel and lubricants	606,312	-	-	606,312
50404	Major purchases <i>(Vessel maintenance and repairs/ small tools)</i>	64,639	13,110	-	77,749
50499	Other materials and supplies <i>(Office supplies, postage)</i>	-	-	4,425	4,425
<b>505:</b>	<b>Utilities</b>				
50500	Utilities	-	-	24,882	24,882
<b>506:</b>	<b>Insurance</b>				
50603	Liability insurance	-	-	19,969	19,969
50699	Other insurance	41,059	-	-	41,059
<b>509:</b>	<b>Miscellaneous expenses</b>				
50902	Travel, meetings and training	-	-	640	640
50903	Subscriptions	-	-	26	26
<b>513:</b>	<b>Depreciation</b>				
51300	Depreciation	405,370	-	-	405,370

**Beaver Island Transportation Authority**

## NONURBAN FERRY SERVICE EXPENSE REPORT - Continued

For the Year Ended September 30, 2023

<b>Code</b>	<b>Description</b>	<b>Operations</b>	<b>Maintenance</b>	<b>General Admin.</b>	<b>Total</b>
<b>540:</b>	<b>Ineligible expenses</b>				
54000	Ineligible refunds and credits	-	-	2,745	2,745
<b>550:</b>	<b>Ineligible expenses</b>				
55007	Ineligible depreciation	405,370	-	-	405,370
<b>576:</b>	<b>Ineligible expenses</b>				
57604	Other ineligible operating expenses paid by capital contract	43,954	13,110	12,900	69,964
<b>Total expenses</b>					<b>\$ 1,309,052</b>
<b>Total ineligible expenses</b>					<b><u>478,079</u></b>
<b>Total eligible expenses</b>					<b><u>\$ 830,973</u></b>

**Beaver Island Transportation Authority**

## OPERATING ASSISTANCE CALCULATION

For the Year Ended September 30, 2023

	<u>State Operating Assistance</u>
Expenses	
Labor	\$ 68,670
Fringe benefits	19,320
Services	40,630
Materials and supplies	688,486
Utilities	24,882
Casualty and liability costs	61,028
Miscellaneous	666
Depreciation	<u>405,370</u>
Total expenses	<u>1,309,052</u>
Less ineligible expenses	
Depreciation	405,370
Capital grant expenses	
Grant #2022-0017/P4	12,900
Grant #2017-0018/P9	12,822
Grant #2017-0018/P8	44,242
Other ineligible expenses	<u>2,745</u>
Total ineligible expenses	<u>478,079</u>
Net eligible expenses	<u>\$ 830,973</u>
Maximum reimbursement (50%)	<u>\$ 415,486</u>

## Beaver Island Transportation Authority

### SCHEDULE OF OPERATING EXPENSES

For the Year Ended September 30, 2023

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total</u>
Labor:				
Operating salaries and wages	\$ -	\$ -	\$ 68,670	\$ 68,670
Fringe benefits:				
Other fringe benefits	-	-	19,320	19,320
Services:				
Advertising	-	-	547	547
Audit	-	-	10,600	10,600
Other services	-	10,120	19,363	29,483
Material and supplies:				
Fuel and lubricants	606,312	-	-	606,312
Major purchases	64,639	13,110	-	77,749
Other materials and supplies	-	-	4,425	4,425
Utilities:				
Utilities	-	-	20,881	20,881
Telephone	-	-	3,941	3,941
Sanitation	-	-	60	60
Casualty and liability cost:				
Liability and property damage insurance	-	-	19,969	19,969
Insurance - hull	41,059	-	-	41,059
Miscellaneous expenses:				
Travel	-	-	640	640
Subscriptions	-	-	26	26
Depreciation	<u>405,370</u>	<u>-</u>	<u>-</u>	<u>405,370</u>
Total operating expenses	<u>\$ 1,117,380</u>	<u>\$ 23,230</u>	<u>\$ 168,442</u>	<u>\$ 1,309,052</u>

**Beaver Island Transportation Authority**

NON-OPERATING REVENUES

For the Year Ended September 30, 2023

State of Michigan operating grants	
State Operating Assistance - Act 51	<u>\$ 415,486</u>
Federal operating assistance revenue	
Operating grant #2022-0017/P6 (100/0/0) - ARPA	<u>149,575</u>
Other non-operating income	
Local assistance	265,911
Interest	19,662
Farebox revenue (fuel surcharge)	24,369
Refunds and credits	<u>2,745</u>
Total other non-operating income	<u>312,687</u>
Total non-operating revenues	<u><u>\$ 877,748</u></u>

**Beaver Island Transportation Authority**

CAPITAL CONTRIBUTIONS - GRANTS

For the Year Ended September 30, 2023

Grants received (Federal/State/Local share)

Marine Capital - Federal share

Capital grant #2017-0018/P9 (80/20/0)	\$ 10,257
Capital grant #2017-0018/P13 (80/20/0)	32,000
Capital grant #2017-0018/P16 (80/20/0)	56,250
Capital grant #2022-0017/P4 (80/20/0)	<u>10,320</u>

Total Federal share 108,827

Marine Capital - State share

Capital grant #2017-0018/P9 (80/20/0)	2,564
Capital grant #2017-0018/P8 (0/90/10)	64,639
Capital grant #2017-0018/P13 (80/20/0)	8,000
Capital grant #2022-0017/P4 (80/20/0)	<u>2,580</u>

Total State share 77,783

Marine Capital - Local share

Capital grant #2017-0018/P8 (0/90/10)	<u>7,182</u>
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Total capital contributions - grants \$ 193,792