

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

FINANCIAL STATEMENTS

and

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016



*Vredeveld Haefner LLC*

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

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## INDEPENDENT AUDITORS' REPORT

November 9, 2016

Board of Directors  
Harbor Transit Multi-Modal Transportation System  
Grand Haven, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and each major fund of the Harbor Transit Multi-Modal Transportation System (the System) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Harbor Transit Multi-Modal Transportation System, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

*Wredenold Haefner LLC*

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

## Management's Discussion and Analysis

As management of the Harbor Transit Multi-Modal Transportation System (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- A new Customer Care and Compliance Manager was hired during the fiscal year.
- Staffing increases occurred to meet operational needs.
- Increasing ridership occurred for the 4<sup>th</sup> year in a row.
- Creation of Harbor Trolley, owned by Harbor Transit Multi-Modal Transportation System, occurred during the year. Harbor Trolley began customized contractual services for the service area in June 2016. Harbor Trolley received a \$25,000 loan from the City of Grand Haven Economic Development Corporation as seed money for the service. Its financial and administrative operations are supported by the City of Grand Haven under contract.
- A Federal Transit Administration triennial audit occurred in August 2015. The System performed very well with only one finding out of 17 areas of review. The finding has been resolved during the fiscal year reported.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The System's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements.

The *Statement of Net Position* presents information on all of the System's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences, etc.).

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

### Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the System, assets exceeded liabilities by \$2,600,409 at the close of the most recent fiscal year.

A portion of the System's net position reflects unrestricted net position which is available for future operation while a more significant portion of net position is invested in capital assets (vehicles and equipment) less any related debt used to acquire those assets that is still outstanding. The System uses these capital assets to provide services to riders; consequently, these assets are *not* available for future spending.

**Net Position**

	<u>2016</u>	<u>2015</u>
Current assets	\$1,523,894	\$1,024,542
Capital assets	1,371,697	1,360,108
<b>Total assets</b>	<u>2,895,591</u>	<u>2,384,650</u>
Current liabilities	274,982	183,112
Long-term liabilities	20,200	-
<b>Total liabilities</b>	<u>295,182</u>	<u>183,112</u>
Net position		
Net investment in capital assets	1,371,697	1,360,108
Unrestricted	1,228,712	841,430
<b>Total net position</b>	<u>\$2,600,409</u>	<u>\$2,201,538</u>

The total net position of the System at June 30, 2016 is \$2,600,409 however, \$1,371,697 represents net investment in capital assets.

**Revenues, Expenses and Changes in Net Position**

	<u>2016</u>	<u>2015</u>
Operating revenue	\$ 198,149	\$ 201,135
Operating expenses	2,953,345	2,533,487
Operating income (loss)	(2,755,196)	(2,332,352)
Nonoperating revenues and expense	2,730,400	2,100,852
Change in net position before capital contributions	(24,796)	(231,500)
Capital contributions	423,667	145,430
Change in net position	398,871	(86,070)
<b>Net position-beginning of year</b>	<u>2,201,538</u>	<u>2,287,608</u>
<b>Net position-end of year</b>	<u>\$2,600,409</u>	<u>\$2,201,538</u>

Total net position increased by \$398,871 for the current year as a result of an increase in property tax revenues.

**Capital Asset and Debt Administration**

**Capital assets.** The System's investment in capital assets as of June 30, 2016, amounted to \$1,371,697 (net of accumulated depreciation).

Significant capital purchases during the year consisted of buses and other vehicles.

Additional information on the System's capital assets can be found in Note 3 of these financial statements.

**Debt.** Harbor Trolley received a \$25,000 loan from the City of Grand Haven Economic Development Corporation as seed money for the service. It is anticipated to be reimbursed solely from Harbor Trolley revenue. No other outstanding debt is held by the System.

Additional information on the System's long-term debt can be found in Note 4 of these financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the System's budget for the 2016-17 fiscal year:

- Over 60% of HTMMTS funding is provided from Federal and State sources.
- Local communities' contributions from property taxation are stable. Taxable property value is increasing throughout the service area.
- The millage rate was reduced by 2/100 of a mill (to 0.5800) for the reported year.
- Cash reserves for the System have been increasing in recent years to provide cash flow support due to the timing of Federal and State grant revenue. An additional \$165,000 annual transfer of cooperative distribution of FTA formula funds between Muskegon Area Transit and Harbor Transit further supports the HTMMTS cash position.
- Spring Lake Township electors voted in November to join the System. Increases in Federal revenue (based on population) and State revenue (based on ridership) increased operational revenue to meet expanded operational costs due to the larger service area.
- Significant numbers of riders come from local schools and senior residential properties. Marketing to these groups and to the service area at large keeps the System visible as a low cost transportation option.

## **Requests for Information**

The City of Grand Haven provides, by contract, fiscal and administrative services to the System. This financial report is designed to provide interested individuals including citizens, property owners, customers, investors and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions or need additional financial information, please contact us at 519 Washington Avenue, Grand Haven, MI 49417 or call or email us as noted below:

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## **BASIC FINANCIAL STATEMENTS**

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Harbor Transit</u>	<u>Harbor Trolley</u>	<u>Total</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,055,895	\$ 16,169	\$ 1,072,064
Accounts receivable	1,892	-	1,892
Due from other governments	396,243	-	396,243
Prepaid items	39,659	-	39,659
Inventory	14,036	-	14,036
	<u>1,507,725</u>	<u>16,169</u>	<u>1,523,894</u>
Total current assets			
Non-current assets			
Capital assets			
Depreciable capital assets, net	1,355,197	16,500	1,371,697
	<u>1,355,197</u>	<u>16,500</u>	<u>1,371,697</u>
	<u>2,862,922</u>	<u>32,669</u>	<u>2,895,591</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable	45,757	2,153	47,910
Due to other governments	222,025	91	222,116
Unearned revenue	156	-	156
Current portion of long-term debt	-	4,800	4,800
	<u>267,938</u>	<u>7,044</u>	<u>274,982</u>
Total current liabilities			
Long-term liabilities			
Note payable	-	20,200	20,200
	<u>-</u>	<u>20,200</u>	<u>20,200</u>
	<u>267,938</u>	<u>27,244</u>	<u>295,182</u>
<b>Total liabilities</b>			
<b>Net position</b>			
Net investment in capital assets	1,355,197	16,500	1,371,697
Unrestricted	1,239,787	(11,075)	1,228,712
	<u>1,239,787</u>	<u>(11,075)</u>	<u>1,228,712</u>
	<u>\$ 2,594,984</u>	<u>\$ 5,425</u>	<u>\$ 2,600,409</u>
<b>Total net position</b>			

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

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Harbor Transit</u>	<u>Harbor Trolley</u>	<u>Total</u>
<b>Operating revenue</b>			
Demand-response (Fare box)	\$ 165,769	\$ 5,640	\$ 171,409
Trolley (Fare box)	21,940	-	21,940
Contractual services	4,800	-	4,800
<b>Total operating revenue</b>	<u>192,509</u>	<u>5,640</u>	<u>198,149</u>
<b>Operating expense</b>			
Labor	1,502,651	222	1,502,873
Fringe benefits	485,978	228	486,206
Professional and contractual services	245,652	16,265	261,917
Fuel and supplies	261,028	-	261,028
Utilities	31,205	-	31,205
Casualty and liability costs	51,526	-	51,526
Other	23,273	-	23,273
Depreciation	333,817	1,500	335,317
<b>Total operating expense</b>	<u>2,935,130</u>	<u>18,215</u>	<u>2,953,345</u>
Operating income (loss)	<u>(2,742,621)</u>	<u>(12,575)</u>	<u>(2,755,196)</u>
Non-operating revenue (expense)			
Property taxes	1,209,317	-	1,209,317
Administration fee	11,100	-	11,100
State subsidies	1,021,906	-	1,021,906
Federal subsidies	448,812	-	448,812
Gain on sale of capital assets	7,235	-	7,235
Advertising revenue	6,805	-	6,805
Interest income	465	-	465
Other	24,760	-	24,760
<b>Total non-operating revenue (expense)</b>	<u>2,730,400</u>	<u>-</u>	<u>2,730,400</u>
Income (loss) before capital contributions	<u>(12,221)</u>	<u>(12,575)</u>	<u>(24,796)</u>
Capital contribution			
Local	-	18,000	18,000
State	84,551	-	84,551
Federal	321,116	-	321,116
<b>Total capital contributions</b>	<u>405,667</u>	<u>18,000</u>	<u>423,667</u>
Changes in net position	393,446	5,425	398,871
<b>Net position, beginning of year</b>	<u>2,201,538</u>	<u>-</u>	<u>2,201,538</u>
<b>Net position, end of year</b>	<u>\$ 2,594,984</u>	<u>\$ 5,425</u>	<u>\$ 2,600,409</u>

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

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Harbor Transit</u>	<u>Harbor Trolley</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Receipts from customers and users	\$ 199,852	\$ 5,640	\$ 205,492
Grant receipts	1,344,799	-	1,344,799
Property tax receipts	1,209,317	-	1,209,317
Other revenues	42,665	-	42,665
Payments for contract employees	(1,988,629)	(450)	(1,989,079)
Payments to suppliers	<u>(568,409)</u>	<u>(14,021)</u>	<u>(582,430)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>239,595</u>	<u>(8,831)</u>	<u>230,764</u>
<b>Cash flows from non-capital financing activities</b>			
Note issued	<u>-</u>	<u>25,000</u>	<u>25,000</u>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from sale of capital assets	7,235	-	7,235
Capital grants	405,667	-	405,667
Acquisitions of capital assets	<u>(328,906)</u>	<u>-</u>	<u>(328,906)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>83,996</u>	<u>-</u>	<u>83,996</u>
<b>Cash flows from investing activities</b>			
Interest income	<u>465</u>	<u>-</u>	<u>465</u>
Net increase (decrease) in cash and cash equivalents	324,056	16,169	340,225
<b>Cash and cash equivalents, beginning of year</b>	<u>731,839</u>	<u>-</u>	<u>731,839</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,055,895</u>	<u>\$ 16,169</u>	<u>\$ 1,072,064</u>
<b>Cash flows from operating activities</b>			
Operating income (loss)	\$ (2,742,621)	\$ (12,575)	(2,755,196)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	333,817	1,500	335,317
Operating grants	1,470,718	-	1,470,718
Property taxes	1,209,317	-	1,209,317
Other revenue nonoperating revenues reported as operating activities	42,665	-	42,665
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	7,343	-	7,343
Due from other governmental units	(125,938)	-	(125,938)
Prepaid expenses	(35,474)	-	(35,474)
Inventory	(5,058)	-	(5,058)
Accounts payable	12,752	2,153	14,905
Due to other governmental units	72,055	91	72,146
Unearned revenue	<u>19</u>	<u>-</u>	<u>19</u>
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 239,595</u>	<u>\$ (8,831)</u>	<u>\$ 230,764</u>
<b>Schedule of non-cash capital and related financing activities:</b>			
Contributions of capital assets	\$ -	\$ 18,000	\$ 18,000

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

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# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Harbor Transit Multi-Modal Transportation System (the "System") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

#### **Reporting Entity**

The System is a municipal corporation governed by an appointed Board. The System was formed on January 1, 2012 from the former Harbor Transit enterprise fund of the City of Grand Haven, Michigan.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the System. The criteria for including a component unit include significant operational or financial relationships with the System.

These financial statements present the System and its component unit, an entity for which the System is considered to be financially accountable. A blended component unit, although a legally separate entity is, in substance, part of the System's operations, so data from this unit is combined with data of the primary government.

#### **Blended Component Unit**

Harbor Trolley, LLC (Harbor Trolley) was established on November 15, 2015 pursuant to the Michigan Limited Liability Company Act (1993 PA 23, as amended) to provide trolley transportation services. Harbor Trolley is a blended component unit as its relationship with the System permeates the financial operations of the System. A separate report is not prepared for Harbor Trolley.

#### **Measurement Focus and Basis of Accounting**

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

The System distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the System's principal ongoing operations. The principal operating revenues of the System are charges for services. Operating expenses of the System include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Property Taxes**

Property taxes are levied and collected by local units of government within the System service area to provide local operating support for the system.

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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### **Investments**

Investments are recorded at fair value.

State statutes authorize the System to invest in:

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

### **Receivables**

All receivables are reported at their net value. Allowance for uncollectible receivables was immaterial at year-end.

### **Due From Other Governments**

The System receives funding from the US Department of Transportation, State of Michigan and property taxes from participating local units of government. The balance of the amount due from governments is as follows:

Due from Federal Government	\$297,084
Due from State of Michigan	<u>99,159</u>
Total	<u>\$396,243</u>

### **Inventory**

Inventory consists principally of materials, parts and supplies which are generally used for operations. Inventory is stated at cost using the first-in first-out (FIFO) method.

### **Prepaid Items**

The System made payments prior to year-end for services that will be performed in the next fiscal year. In these situations, the System records an asset to reflect the investment in future services.

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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### Capital Assets

Capital assets are stated at cost and include items defined by the System as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives as defined in the Local Public Transit Revenue and Expense Manual and/or as approved by the Bureau of Passenger Transportation:

	Years
Vehicles	7-20
Dispatch and office equipment	3-20

### Due to Other Governments and Leased Employees

All personnel providing services to the System are legally employees of the City of Grand Haven, Michigan. The amount reported as due to other governments at year end consisted primarily of the balance payable to the City of Grand Haven for the services of these leased City employees.

### Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2016, the System carried commercial insurance to cover risks of losses. The System has had no settled claims resulting from these risks that exceeded their coverage in any of the past three fiscal years.

## 2. DEPOSITS

The captions on the financial statements relating to cash and cash equivalents are as follows:

Cash and cash equivalents	<u><u>\$1,072,064</u></u>
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Cash and cash equivalents consist of the following at June 30, 2016:

Deposits	\$1,071,614
Petty cash	<u>450</u>
Total	<u><u>\$1,072,064</u></u>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the System's investing options to financial institutions located in Michigan. All accounts are in the name of the System and a specific fund or common account. They are recorded in the System's records at fair value. Interest is recorded when earned.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. State law does not require, and the System does not have, a policy for deposit custodial credit risk. As of year-end, \$805,445 of the System's bank balance of \$1,071,611 was exposed to custodial credit risk because it was uninsured and uncollateralized.

### 3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Capital assets, being depreciated</b>				
Vehicles	\$2,697,202	\$ 337,588	\$109,347	\$2,925,443
Dispatch and office equipment	355,779	9,318	9,275	355,822
Total capital assets, being depreciated	<u>3,052,981</u>	<u>346,906</u>	<u>118,622</u>	<u>3,281,265</u>
Less accumulated depreciation for				
Vehicles	1,565,440	307,672	109,347	1,763,765
Dispatch and office equipment	127,433	27,645	9,275	145,803
Total accumulated depreciation	<u>1,692,873</u>	<u>335,317</u>	<u>118,622</u>	<u>1,909,568</u>
<b>Capital assets, net</b>	<u><b>\$1,360,108</b></u>	<u><b>\$ 11,589</b></u>	<u><b>\$ -</b></u>	<u><b>\$1,371,697</b></u>

### 4. LONG TERM DEBT

The following is a summary of the debt transactions of the System for the year ended June 30, 2016.

	<u>Balance</u> <u>July 1,</u> <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2016</u>	<u>Due</u> <u>Within</u> <u>One</u> <u>Year</u>
<b>Business-type Activities</b>					
\$25,000 promissory note due in annual installments of \$5,300 including interest at 2% through February 2021	\$ -	\$ 25,000	\$ -	\$25,000	\$4,800

During fiscal year 2016, the System issued a \$25,000 promissory note to provide resources to finance startup operations of Harbor Trolley, LLC.

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

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The annual requirements to amortize all bonds and installment purchases as of June 30, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 4,800	\$ 500
2018	4,896	404
2019	4,994	306
2020	5,094	206
2021	5,216	104
	<hr/>	<hr/>
<b>Total</b>	<b>\$25,000</b>	<b>\$1,520</b>

#### 5. RETIREMENT BENEFITS AND NET OTHER POST-EMPLOYMENT BENEFITS

The System leases employees from the City of Grand Haven, Michigan, which participates in a single employer defined benefit pension and single employer defined benefit and defined contribution healthcare plan. The System pays the actuarially-determined annual costs of retirement and OPEB benefits to the City, releasing its responsibility for those costs in the future.

#### 6. CONTINGENCIES

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

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## **STATISTICAL SECTION**

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## Schedule 1 - Local Revenues

FOR THE YEAR ENDED JUNE 30, 2016

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	<u>July 1, 2015 to September 30, 2015</u>	<u>October 1, 2015 to June 30, 2016</u>	<u>Total</u>
<b>Local revenues</b>			
Demand-response (fare box)	\$ 38,967	\$ 126,802	\$ 165,769
Trolley (fare box)	16,804	5,136	21,940
Contractual services	270	4,530	4,800
Property taxes	371,003	838,314	1,209,317
Administrative fee	11,100	-	11,100
Advertising revenue	-	6,805	6,805
Interest income	77	388	465
Gain on sale of capital assets	-	7,235	7,235
Other	1,660	23,100	24,760
	<hr/>	<hr/>	<hr/>
Total local revenues	\$ 439,881	\$ 1,012,310	\$ 1,452,191

## Schedule 1A - Local Revenues

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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	<u>October 1, 2014 to June 30, 2015</u>	<u>July 1, 2015 to September 30, 2015</u>	<u>Total</u>
<b>Local revenues</b>			
Demand-response (fare box)	\$ 118,063	\$ 38,967	\$ 157,030
Trolley (fare box)	5,239	16,804	22,043
Contractual services	16,620	270	16,890
Property taxes	489,594	371,003	860,597
Administrative fee	5,350	11,100	16,450
Advertising revenue	5,245	-	5,245
Interest income	307	77	384
Gain on sale of capital assets	-	-	-
Other	2,015	1,660	3,675
	<hr/>	<hr/>	<hr/>
Total local revenues	\$ 642,433	\$ 439,881	\$ 1,082,314

**HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM**

**SCHEDULE OF EXPENDITURES OF STATE AND FEDERAL AWARDS (2)**

**FOR THE YEAR ENDED JUNE 30, 2016**

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant No. / Authorization Number		Program Award Amount	Current Year Expenditures				Prior Year Expended	Award Amount Remaining
					Total	Federal	State	Local		
<b>U.S. Department of Transportation</b>										
<b>Federal Transit Cluster</b>										
<b>Direct assistance</b>										
Capital investment grants										
Capital grant - Section 5309 bus and bus facilities	20.500	MI-04-0074-01	12-0087/P13	\$ 759,000	\$ 73,497	\$ 58,798	\$ 14,699	\$ -	\$ 685,175	\$ 328
Capital grant - Section 5309 bus and bus facilities	20.500	MI-04-0087-00	12-0087/P17	602,800	-	-	-	-	573,208	29,592
Total capital investment grants				<u>1,361,800</u>	<u>73,497</u>	<u>58,798</u>	<u>14,699</u>	<u>-</u>	<u>1,258,383</u>	<u>29,920</u>
Formula grants										
Operating assistance - Section 5307	20.507	MI-2016-019-00		526,068	294,186	294,186	-	-	-	231,882
Operating assistance - Section 5307	20.507	MI-90-X699-01		359,865	109,865	109,865	-	-	250,000	-
CMAQ - Section 5307	20.507	MI-95-X115-00	12-0087/P22	182,000	142,535	114,028	28,507	-	-	39,465
CMAQ - Section 5307	20.507	MI-95-X099-00	12-0087/P20	142,000	142,000	113,600	28,400	-	-	-
CMAQ - Section 5307	20.507	MI-95-X099-00	12-0087/P14	137,500	47,156	37,725	9,431	-	65,987	24,357
Total formula grants				<u>1,347,433</u>	<u>735,742</u>	<u>669,404</u>	<u>66,338</u>	<u>-</u>	<u>315,987</u>	<u>295,704</u>
<b>Total direct assistance</b>				<u>2,709,233</u>	<u>809,239</u>	<u>728,202</u>	<u>81,037</u>	<u>-</u>	<u>1,574,370</u>	<u>325,624</u>
<b>Passed through Michigan Department of Transportation</b>										
Bus and bus facilities formula program										
Capital grant - Section 5339	20.526	MI 34-0003-03	12-0087/P21	42,371	3,624	2,899	725	-	-	38,747
Capital grant - Section 5339	20.526	MI 34-0003-00	12-0087/P16	41,832	13,465	10,772	2,693	-	25,958	2,409
Capital grant - Section 5339	20.526	MI 34-0003-02	12-0087/P19	42,370	35,068	28,055	7,013	-	3,629	3,673
<b>Total passed through Michigan Department of Transportation</b>				<u>126,573</u>	<u>52,157</u>	<u>41,726</u>	<u>10,431</u>	<u>-</u>	<u>29,587</u>	<u>44,829</u>
<b>Total U.S. Department of Transportation</b>				<u>2,835,806</u>	<u>861,396</u>	<u>769,928</u>	<u>91,468</u>	<u>-</u>	<u>1,603,957</u>	<u>370,453</u>
<b>Michigan Department of Transportation</b>										
Operating assistance - Act 51 2014 reconciliation receipts	N/A	N/A		23,972	23,972	-	23,972	-	-	-
Operating assistance - Act 51 2015 receipts	N/A	N/A		894,398	894,398	-	894,398	-	-	-
Operating assistance - Act 51 2015 preliminary reconciliation receipt	N/A	N/A		96,619	96,619	-	96,619	-	-	-
<b>Total Michigan Department of Transportation</b>				<u>1,014,989</u>	<u>1,014,989</u>	<u>-</u>	<u>1,014,989</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>				<u>\$ 3,850,795</u>	<u>\$ 1,876,385</u>	<u>\$ 769,928</u>	<u>\$ 1,106,457</u>	<u>\$ -</u>	<u>\$ 1,603,957</u>	<u>\$ 370,453</u>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## Schedule 2A - Federal and State Awards - Operating Revenue Only

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>July 1, 2015 to September 30, 2015</u>	<u>October 1, 2015 to June 30, 2016</u>	<u>Total</u>
<b>Michigan Department of Transportation</b>			
Local Bus Operating (Act 51)	\$ 204,609	\$ 810,380	\$ 1,014,989
<b>Federal Transit Administration</b>			
Section 5307	109,865	-	109,865
Section 5307 - accrued	<u>728</u>	<u>293,458</u>	<u>294,186</u>
<b>Total</b>	<u>\$ 315,202</u>	<u>\$ 1,103,838</u>	<u>\$ 1,419,040</u>

## Schedule 2B - Federal and State Awards - Operating Revenue Only

**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	<u>October 1, 2014 to June 30, 2015</u>	<u>July 1, 2015 to September 30, 2015</u>	<u>Total</u>
<b>Michigan Department of Transportation</b>			
Local Bus Operating (Act 51)	\$ 559,374	\$ 204,609	\$ 763,983
<b>Federal Transit Administration</b>			
Section 5307	250,000	109,865	359,865
Section 5307 - accrued	<u>-</u>	<u>728</u>	<u>728</u>
<b>Total</b>	<u>\$ 809,374</u>	<u>\$ 315,202</u>	<u>\$ 1,124,576</u>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## Schedule 3 - Operating and Contract Expenses

JUNE 30, 2016

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Operating Contract</u>	<u>Total</u>
Labor	\$ 1,502,651	\$ -	\$ -	\$ -	\$ 1,502,651
Fringe benefits	342,397	-	-	-	342,397
Pension - defined benefit	78,890	-	-	-	78,890
Other post-employment benefits	64,691	-	-	-	64,691
Professional and contractual services	245,652	-	-	-	245,652
Fuel and supplies	261,028	-	-	-	261,028
Utilities	31,205	-	-	-	31,205
Casualty and liability costs	51,526	-	-	-	51,526
Other	23,273	-	-	-	23,273
Depreciation	333,817	-	-	-	333,817
<b>Total</b>	<u>\$ 2,935,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,935,130</u>

The following cost allocation plans were adhered to in the preparation of the financial statements:  
No cost allocation plans are currently in use.

Capital/CMAQ items purchased with grants of \$128,439 are included in operating expenses above and are excluded for purposes of calculating operating reimbursements.

All operating staff of the System are provided under contractual arrangement with the City of Grand Haven. The employees (and retirees) remain employees of the City of Grand Haven, however employee and retiree costs for wages and benefits are charged to the System directly. This arrangement limits the System's future responsibility for retirement and OPEB to the actuarial costs determined for the fiscal year.

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## Schedule 3A - Operating and Contract Expenses

FOR THE YEAR ENDED JUNE 30, 2016

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	<u>July 1, 2015 to September 30, 2015</u>	<u>October 1, 2015 to June 30, 2016</u>	<u>Total</u>
Labor	\$ 299,816	\$ 1,202,835	\$ 1,502,651
Fringe benefits	59,066	283,331	342,397
Pension - defined benefit	15,849	63,041	78,890
Other post-employment benefits	24,662	40,029	64,691
Professional and contractual services	51,704	193,948	245,652
Fuel and supplies	48,466	212,562	261,028
Utilities	4,605	26,600	31,205
Casualty and liability costs	12,882	38,644	51,526
Other	2,483	20,790	23,273
Depreciation	79,320	254,497	333,817
<b>Total</b>	<u>\$ 598,853</u>	<u>\$ 2,336,277</u>	<u>\$ 2,935,130</u>

## Schedule 3B - Operating and Contract Expenses

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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	<u>October 1, 2014 to June 30, 2015</u>	<u>July 1, 2015 to September 30, 2015</u>	<u>Total</u>
Labor	\$ 1,030,657	\$ 299,816	\$ 1,330,473
Fringe benefits	210,479	59,066	269,545
Pension - defined benefit	49,519	15,849	65,368
Other post-employment benefits	16,737	24,662	41,399
Professional and contractual services	178,755	51,704	230,459
Fuel and supplies	194,774	48,466	243,240
Utilities	27,677	4,605	32,282
Casualty and liability costs	32,154	12,882	45,036
Other	10,265	2,483	12,748
Depreciation	300,434	79,320	379,754
<b>Total</b>	<u>\$ 2,051,451</u>	<u>\$ 598,853</u>	<u>\$ 2,650,304</u>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## Schedule 4R - Urban Regular Service Revenue Report

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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<u>Description</u>	<u>Amount</u>
<b>Fare box revenue</b>	
Passenger fares	\$ 179,073
Contract fares	16,890
<b>Auxiliary transit revenue</b>	
Advertising	5,245
<b>Other revenue</b>	
Administrative services	16,450
Gain on sale of capital assets	-
Other nontransit revenue	-
<b>Local revenue</b>	
Local operating assistance	-
<b>Local revenue</b>	
Taxes levied directly for/by transit agency	860,597
<b>State formula and contracts</b>	
State operating assistance	763,983
<b>Federal contracts</b>	
Section 5307 (operating funds)	360,593
<b>Other revenue</b>	
Refunds and credits	3,675
Interest income	384
<b>Total</b>	<u>\$ 2,206,890</u>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## Schedule 4E - Urban Regular Service Expense Report

FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>General Admin.</u>	<u>Total</u>
<b>Labor</b>				
Operator salaries and wages	\$ 858,935	\$ 49,916	\$ 169,778	\$ 1,078,629
Dispatcher salaries and wages	251,844	-	-	251,844
<b>Fringe Benefits</b>				
Other fringe benefits	226,026	9,677	33,842	269,545
Pension - defined benefit	41,945	5,416	18,007	65,368
Other post-employment benefits	36,614	1,939	2,846	41,399
<b>Services</b>				
Advertising fees	23,182	-	-	23,182
Audit cost	-	-	5,000	5,000
Other services	33,833	42,766	125,678	202,277
<b>Materials and Supplies</b>				
Fuel and lubricants	152,974	-	-	152,974
Tires and tubes	-	9,523	-	9,523
Other materials and supplies	10,133	69,454	1,156	80,743
<b>Utilities</b>				
Utilities	24,312	-	7,970	32,282
<b>Insurance</b>				
Liability insurance	45,036	-	-	45,036
<b>Misc. expenses</b>				
Travel, meetings, training	125	-	2,333	2,458
Association dues and subscriptions	-	-	3,906	3,906
Other	6,237	-	147	6,384
<b>Interest Expense</b>				
Interest on short-term debt	-	-	-	-
<b>Depreciation</b>				
Depreciation	379,754	-	-	379,754
Total operating expense	<u>\$ 2,090,950</u>	<u>\$ 188,691</u>	<u>\$ 370,663</u>	<u>2,650,304</u>
<b>Ineligible Expenses</b>				
Depreciation	-	-	379,754	379,754
Other ineligible expenses	-	-	23,183	23,183
CMAQ grants not capitalized	-	-	128,439	128,439
MPTA dues	-	-	445	445
Administrative fee revenues for staff shared with the airport	-	-	16,450	16,450
Ineligible fee to local units	-	-	-	-
Total ineligible expenses	-	-	-	<u>555,864</u>
<b>Total eligible expenses</b>	-	-	-	<u>\$ 2,094,440</u>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## *Schedule 4N - Urban Regular Service Non-Financial Report*

**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
610	Vehicle hours	35,879	2,242	810	38,931
611	Vehicle miles	506,563	33,113	9,218	548,894

The methodology used for compiling mileage on OAR Schedule 4N is not an adequate and reliable method for recording non-financial data.

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## OPERATING ASSISTANCE CALCULATION (5)

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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	<u>Urban</u>
<b>State eligible expenses</b>	
Labor	\$ 1,330,473
Fringe benefits	376,312
Professional and contractual	230,459
Fuel and supplies	243,240
Utilities	32,282
Casualty and liability costs	45,036
Other	12,748
Depreciation	<u>379,754</u>
<b>Total expenses</b>	<u>2,650,304</u>
<b>Less ineligible expenses</b>	
Depreciation	379,754
Ineligible refunds and credits	7,593
Other ineligible expenses	23,183
CMAQ grants not capitalized	128,439
MPTA dues	445
Administrative fee revenues for staff shared with the airport	16,450
Ineligible fee to local units	<u>-</u>
<b>Total ineligible expenses</b>	<u>555,864</u>
<b>State eligible expenses</b>	<u>\$ 2,094,440</u>
<b>State operating assistance - 39.3%</b>	<u><u>\$ 823,592</u></u>
<b>Federal eligible expenses</b>	
State eligible expenses	\$ 2,094,440
Less additional federal ineligible expenses	
Audit costs	<u>5,000</u>
<b>Federal eligible expenses</b>	<u>\$ 2,089,440</u>
<b>Section 5307 reimbursement - 50% with maximum of \$359,865</b>	<u><u>\$ 359,865</u></u>

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## **SINGLE AUDIT SECTION**



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 9, 2016

Board of Directors  
Harbor Transit Multi-Modal Transportation System  
Grand Haven, Michigan

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 business-type activities and each major fund of the Harbor Transit Multi-Modal Transportation System, Grand Haven, Michigan (the System) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 9, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

*Specializing in services to governmental and nonprofit entities*

**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 System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Orlando Hafner LLC*



*Vredeveld Haefner LLC*

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE**

November 9, 2016

Board of Directors  
Harbor Transit Multi-Modal Transportation System  
Grand Haven, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Harbor Transit Multi-Modal Transportation System, Grand Haven, Michigan's (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2016. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

The System's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Uredaxold Haefner LLC*

**HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2016**

<b>Federal and State Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant No. / Authorization Number</b>		<b>Expenditures</b>
<b>U.S. Department of Transportation</b>				
<b>Federal Transit Cluster</b>				
<b>Direct assistance</b>				
Capital investment grants				
Capital grant - Section 5309 bus and bus facilities	20.500	MI-04-0074-00	12-0087/P13	\$ 58,798
Formula grants				
Operating assistance - Section 5307	20.507	MI-2016-019-00		294,186
Operating assistance - Section 5307	20.507	MI-90-X699-01		109,865
CMAQ	20.507	MI-95-X115-00	12-0087/P22	114,028
CMAQ	20.507	MI-95-X099-00	12-0087/P20	113,600
CMAQ	20.507	MI-95-X099-00	12-0087/P14	37,725
Total formula grants				<u>669,404</u>
<b>Total direct assistance</b>				<u>728,202</u>
<b>Passed through Michigan Department of Transportation</b>				
Bus and bus facilities formula program				
Capital grant - Section 5339	20.526	MI 34-0003-03	12-0087/P21	2,899
Capital grant - Section 5339	20.526	MI 34-0003-00	12-0087/P16	10,772
Capital grant - Section 5339	20.526	MI 34-0003-02	12-0087/P19	28,055
<b>Total passed through Michigan Department of Transportation</b>				<u>41,726</u>
<b>Total Federal Financial Assistance</b>				<b>\$ <u>769,928</u></b>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

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1. The Schedule of Expenditure of Federal Awards is prepared in accordance with the accrual basis of accounting.
2. Reconciliation of revenues from Federal sources per the financial statements and expenditures per the Schedule of Expenditures of Federal Awards.

Revenues from Federal sources per the financial statements

Non-operating revenue (expense)	
Federal subsidies	\$ 448,812
Capital contribution	
Federal	<u>321,116</u>
Total revenues from Federal sources per the financial statements	769,928
Expenditures per Schedule of Expenditures of Federal Awards	<u>769,928</u>
Difference	<u>\$ -</u>

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

#### Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditors' report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.500, 20.507, 20.526	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and B programs: \$750,000

Auditee qualified as low-risk auditee?  yes  no

### SECTION II - FINANCIAL STATEMENT FINDINGS

None noted

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2016-001

**Condition and Criteria:** 2 CFR section 200.313(d)(2) states that a physical inventory of equipment shall be taken and the results reconciled with the equipment records once every two years. Equipment is defined as tangible nonexpendable property charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in conjunction with the inventory, verify the existence, current utilization, and continued need for the equipment. The System did not conduct the required physical inventory within the required two year time period.

**Cause:** While the appropriate System employees were aware of the applicable compliance requirements, there was incomplete follow-through to ensure compliance with the requirements.

# HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

*FOR THE YEAR ENDED JUNE 30, 2016*

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**Effect:** Noncompliance with the on-going equipment management requirements of the Uniform Guidance.

**Recommendation:** The System should develop and implement a procedure to ensure that the physical inventory of equipment is performed and the results reconciled with the equipment records at least once every two years.

**Management Response:** The System is in process of developing a procedure to ensure that the physical inventory of equipment is performed in accordance with the Uniform Guidance.

### **SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

None noted