



HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

FINANCIAL STATEMENTS
FOR THE FIFTEEN-MONTH PERIOD
ENDED SEPTEMBER 30, 2019



Vredeveld Haefner LLC
CPAs and Consultants

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 9, 2020

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 fifteen-month period ended September 30, 2019, 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 September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the fifteen-month period 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 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 March 9, 2020, 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 the effectiveness of 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.

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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 fifteen-month period ended September 30, 2019. 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

- Evaluation of administrative staffing continues as we pursue more internal efficiencies and controls both financially and administratively in relation to FTA requirements and guidelines.
- Local property taxes and the Michigan Department of Transportation (MDOT) transportation revenue are the main sources of sources. Additional revenues originate from the Federal Transit Administration (FTA) revenue and passenger fares.
- Revenue and expense line items are growing due to administration's efforts on seeking Federal and State grants and in containing costs where possible in operations of the System.
- Harbor Trolley, LLC is no longer owned by the System as it has been dissolved in the current fiscal year. Trolleys were sold back to the City of Grand Haven in 2019.
- The System changed its fiscal year-end from June 30th to September 30th. The result of this changed added three months to the 2018-2019 fiscal year making it a fifteen-month period.

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 period. 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 \$2,324,115 at the close of the most recent fiscal period.

A portion of the System's net position reflects unrestricted net position which is available for future operation while a 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		
	September 30, 2019	June 30, 2018
Current assets	\$1,751,542	\$1,942,799
Capital assets	1,020,584	1,204,295
Total assets	2,772,126	3,147,094
Current liabilities	448,011	220,522
Long-term liabilities	-	10,304
Total liabilities	448,011	230,826
Net position		
Net investment in capital assets	1,020,584	1,204,295
Unrestricted	1,303,531	1,711,973
Total net position	\$2,324,115	\$2,916,268

The total net position of the System at September 30, 2019 is \$2,324,115 however, \$1,020,584 represents net investment in capital assets.

Revenues, Expenses and Changes in Net Position		
	For the fifteen- month period ended September 30, 2019	For the year ended June 30, 2018
Operating revenue	\$ 268,115	\$ 233,783
Operating expenses	4,688,028	3,592,886
Operating income (loss)	(4,419,913)	(3,359,103)
Nonoperating revenue (expense)	3,995,062	2,918,927
Change in net position before capital contributions	(424,851)	(440,176)
Capital contributions	243,729	325,854
Change in net position	(181,122)	(114,322)
Net position - beginning of period, as restated	2,505,237	3,030,590
Net position - end of period	\$2,324,115	\$2,916,268

Total net position decreased by \$181,122 for the current period primarily as a result of an increase in labor costs. Beginning net position was decreased by \$411,031 to reflect the recodification of a grant from operating assistance to capital.

Capital Asset and Debt Administration

Capital assets. The System's investment in capital assets as of September 30, 2019, amounted to \$1,020,584 (net of accumulated depreciation).

Significant capital purchases during the period consisted of two buses.

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

Debt. During fiscal 2016, Harbor Trolley received a loan of \$25,000 from the City of Grand Haven Economic Development Corporation as seed money for the service. The System paid off the note payable in full during the fifteen-month period ended September 30, 2019. 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 2019-20 fiscal year:

- It is anticipated that over 60% of the System's revenue will be provided from State and Federal sources. Purchases of new buses and assets are funded 80% with Federal money and 20% with State money. Without this continuing support, the System would not be able to meet the transportation needs of its customers.
- An FTA grant (80% Federal, 20% State) to fund the purchase of seven new buses is in process for the 2020 fiscal year.
- Property tax millage has been retained at 0.5800 mills for all participating units of government for the last four years.
- The System continues to anticipate ridership growth. Discussions have begun to explore collaboration with the Muskegon Area Transit System (MATS) to provide transportation connections for employees to their places of employment.
- The System has begun to examine all contracts as well as administrative or financial service contracts to evaluate possible cost reductions.
- Plans have been initiated for a System facility expansion at 440 North Ferry Street. The initial phase of this project will commence in the 2019-2020 fiscal year and extend into the 2020-2021 fiscal year as well.

Requests for Information

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 440 North Ferry Street, Grand Haven, MI 49417 or call or email as noted below.

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BASIC FINANCIAL STATEMENTS

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

STATEMENT OF NET POSITION

SEPTEMBER 30, 2019

	<u>Harbor Transit</u>	<u>Harbor Trolley</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 963,084	\$ -	\$ 963,084
Accounts receivable	799	-	799
Due from other governments	761,554	-	761,554
Prepaid items	13,698	-	13,698
Inventory	12,407	-	12,407
	<u>1,751,542</u>	<u>-</u>	<u>1,751,542</u>
Total current assets			
	<u>1,751,542</u>	<u>-</u>	<u>1,751,542</u>
Non-current assets			
Capital assets			
Depreciable capital assets, net	1,020,584	-	1,020,584
	<u>1,020,584</u>	<u>-</u>	<u>1,020,584</u>
Total assets	<u>2,772,126</u>	<u>-</u>	<u>2,772,126</u>
Liabilities			
Current liabilities			
Accounts payable	244,773	-	244,773
Due to other governments	203,238	-	203,238
	<u>448,011</u>	<u>-</u>	<u>448,011</u>
Total liabilities	<u>448,011</u>	<u>-</u>	<u>448,011</u>
Net position			
Net investment in capital assets	1,020,584	-	1,020,584
Unrestricted	1,303,531	-	1,303,531
	<u>1,020,584</u>	<u>-</u>	<u>1,020,584</u>
Total net position	<u>\$ 2,324,115</u>	<u>\$ -</u>	<u>\$ 2,324,115</u>

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 FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

	<u>Harbor Transit</u>	<u>Harbor Trolley</u>	<u>Total</u>
Operating revenue			
Demand-response (Fare box)	\$ 231,666	\$ -	\$ 231,666
Trolley (Fare box)	27,299	-	27,299
Contractual services	<u>1,040</u>	<u>8,110</u>	<u>9,150</u>
Total operating revenue	<u>260,005</u>	<u>8,110</u>	<u>268,115</u>
Operating expense			
Labor	2,448,256	2,519	2,450,775
Fringe benefits	837,874	401	838,275
Professional and contractual services	375,879	2,173	378,052
Fuel and supplies	508,247	947	509,194
Utilities	44,149	-	44,149
Casualty and liability costs	55,790	-	55,790
Other	16,356	2,420	18,776
Depreciation	<u>393,017</u>	<u>-</u>	<u>393,017</u>
Total operating expense	<u>4,679,568</u>	<u>8,460</u>	<u>4,688,028</u>
Operating income (loss)	<u>(4,419,563)</u>	<u>(350)</u>	<u>(4,419,913)</u>
Non-operating revenue (expense)			
Property taxes	1,766,133	-	1,766,133
Administration fee	11,100	-	11,100
State subsidies	1,823,399	-	1,823,399
Federal subsidies	380,597	-	380,597
Gain (loss) on disposal of capital assets	-	(4,498)	(4,498)
Advertising revenue	5,165	-	5,165
Interest income	9,536	-	9,536
Interest expense	-	(371)	(371)
Other	<u>4,001</u>	<u>-</u>	<u>4,001</u>
Total non-operating revenue (expense)	<u>3,999,931</u>	<u>(4,869)</u>	<u>3,995,062</u>
Income (loss) before other items	<u>(419,632)</u>	<u>(5,219)</u>	<u>(424,851)</u>
Capital contribution and other items			
Capital contribution			
State	48,747	-	48,747
Federal	194,982	-	194,982
Transfers in	7,395	-	7,395
Transfers out	<u>-</u>	<u>(7,395)</u>	<u>(7,395)</u>
Total capital contribution and other items	<u>251,124</u>	<u>(7,395)</u>	<u>243,729</u>
Changes in net position	(168,508)	(12,614)	(181,122)
Net position, beginning of year, as restated	<u>2,492,623</u>	<u>12,614</u>	<u>2,505,237</u>
Net position, end of year	<u>\$ 2,324,115</u>	<u>\$ -</u>	<u>\$ 2,324,115</u>

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

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

STATEMENT OF CASH FLOWS

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

	<u>Harbor Transit</u>	<u>Harbor Trolley</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers and users	\$ 260,777	\$ 8,110	\$ 268,887
Grant receipts	2,005,630	-	2,005,630
Property tax receipts	1,766,133	-	1,766,133
Other revenues	20,266	-	20,266
Payments for contract employees	(3,286,130)	(2,920)	(3,289,050)
Payments to suppliers	(763,049)	(6,526)	(769,575)
Net cash provided by (used in) operating activities	<u>3,627</u>	<u>(1,336)</u>	<u>2,291</u>
Cash flows from non-capital financing activities			
Interest on short-term borrowing	-	(371)	(371)
Transfers in	7,395	-	7,395
Transfers out	-	(7,395)	(7,395)
Net cash provided by (used in) non-capital financing activities	<u>7,395</u>	<u>(7,766)</u>	<u>(371)</u>
Cash flows from capital and related financing activities			
Proceeds from sale of capital assets	-	2	2
Capital grants	243,729	-	243,729
Principal paid on note	-	(15,298)	(15,298)
Acquisitions of capital assets	(213,807)	-	(213,807)
Net cash provided by (used in) capital and related financing activities	<u>29,922</u>	<u>(15,296)</u>	<u>14,626</u>
Cash flows from investing activities			
Interest income	<u>9,537</u>	<u>-</u>	<u>9,537</u>
Net increase (decrease) in cash and cash equivalents	50,481	(24,398)	26,083
Cash and cash equivalents, beginning of year	<u>912,603</u>	<u>24,398</u>	<u>937,001</u>
Cash and cash equivalents, end of year	<u>\$ 963,084</u>	<u>\$ -</u>	<u>\$ 963,084</u>
Cash flows from operating activities			
Operating income (loss)	\$ (4,419,563)	\$ (350)	(4,419,913)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	393,017	-	393,017
Operating grants	2,203,996	-	2,203,996
Property taxes	1,766,133	-	1,766,133
Other revenue nonoperating revenues reported as operating activities	20,266	-	20,266
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	772	-	772
Due from other governmental units	(198,258)	-	(198,258)
Prepaid expenses	3,950	-	3,950
Inventory	(155)	-	(155)
Accounts payable	207,636	(265)	207,371
Due to other governmental units	25,941	(721)	25,220
Unearned revenue	(108)	-	(108)
Net cash provided by (used in) operating activities	<u>\$ 3,627</u>	<u>\$ (1,336)</u>	<u>\$ 2,291</u>

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 FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

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.

During 2019, the System changed its fiscal year-end to September 30 and is thereby reporting a fifteen-month period.

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. Harbor Trolley LLC was dissolved during the year with remaining equipment sold back to the City of Grand Haven.

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.

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

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.

Cash and Cash Equivalents

For the purpose of the statement of cash flows the System considers all assets held in the cash and the investment pool to be cash and cash equivalents because the assets can be withdrawn at any time, similar to demand deposit accounts.

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 September 30, 2019.

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

Due From Other Governments

The System receives funding from the U.S. 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	\$556,473
Due from State of Michigan	42,167
Due from local governments	<u>52,914</u>
Total	<u>\$651,554</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 period-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.

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 \$5,000 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 period-end consisted primarily of the balance payable to the City of Grand Haven for the services of these leased City employees.

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

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 period ended September 30, 2019, 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 periods.

2. DEPOSITS

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

Cash and cash equivalents	<u>\$963,084</u>
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Cash and cash equivalents consist of the following at September 30, 2019:

Deposits	\$556,124
Investments	406,510
Petty cash	<u>450</u>
Total	<u>\$963,084</u>

The deposits are in a financial institution 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.

Investments

The System chooses to specifically identify its investments. As of September 30, 2019, the System had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Michigan CLASS pool	n/a	\$ 406,510	AAAm	S&P

Investment and deposit risk

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 September 30, 2019, \$303,554 of the System's bank balance of \$553,554 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Interest Rate Risk. State law and System policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The System's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at September 30, 2019.

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at September 30, 2019.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the System does not have a policy for investment custodial credit risk. For the above pool investment, the System's custodial credit risk exposure cannot be determined because the funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System does not have an investment policy that limits the amount that may be invested in any one issuer. The System minimizes concentration of credit risk by investing in pooled investments. Excluding U.S. government guaranteed, mutual funds and pooled investments, there were no investments in any one issuer that represent 5% or more of total System investments at September 30, 2019.

The System categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The System has the following recurring fair value measurements as of September 30, 2019.

- The System's does not have any investments that report fair value using quoted market prices (Level 1 inputs).
- The Michigan CLASS pool (commercial paper and repurchase agreements) are valued using a pricing model utilizing observable fair value measures of pool investments and other observable inputs to determining the fair value of the securities making up the investment pool (Level 2 inputs).
- The System does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

3. CAPITAL ASSETS

Capital asset activity for the period was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance September 30, 2019
Capital assets, being depreciated				
Vehicles	\$3,190,667	\$194,292	\$18,000	\$3,366,959
Dispatch and office equipment	369,052	19,515	-	388,567
Total capital assets, being depreciated	3,559,719	213,807	18,000	3,755,526
Less accumulated depreciation for				
Vehicles	2,147,416	360,440	13,500	2,494,356
Dispatch and office equipment	208,009	32,577	-	240,586
Total accumulated depreciation	2,355,425	393,017	13,500	2,734,942
Capital assets, net	\$1,204,294	\$(179,210)	\$ 4,500	\$1,020,584

4. LONG TERM DEBT

The following is a summary of the debt transactions of the System for the period ended September 30, 2019.

	Balance July 1, 2018	Additions	Deletions	Balance September 30, 2019	Due Within One Year
Business-type Activities					
Direct placements and direct borrowings					
\$25,000 installment note due in annual installments of \$5,300 including interest at 2% through February 2021	\$15,298	\$ -	\$15,298	\$ -	\$ -

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.

7. COMMITMENTS

At September 30, 2019, the System had outstanding commitments of approximately \$885,500 for bus purchases.

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

8. PRIOR PERIOD ADJUSTMENT

Beginning net position of the Harbor Transit fund was decreased by \$411,031 to reflect the recodification of a grant from operating assistance to capital.

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STATISTICAL SECTION

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 1 - Local Revenues

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

	July 1, 2018 to September 30, 2018	October 1, 2018 to September 30, 2019	Total
Local revenues			
Demand-response (fare box)	\$ 46,638	\$ 185,028	\$ 231,666
Trolley (fare box)	10,820	16,479	27,299
Contractual services	260	780	1,040
Property taxes	384,444	1,381,689	1,766,133
Administrative fee	11,100	-	11,100
Advertising revenue	-	5,165	5,165
Interest income	813	8,723	9,536
Gain on sale of capital assets	-	-	-
Other	2,789	1,212	4,001
	<hr/>	<hr/>	<hr/>
Total local revenues	\$ 456,864	\$ 1,599,076	\$ 2,055,940

Schedule 1A - Local Revenues

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	October 1, 2017 to June 30, 2018	July 1, 2018 to September 30, 2018	Total
Local revenues			
Demand-response (fare box)	\$ 140,240	\$ 46,638	\$ 186,878
Trolley (fare box)	4,081	10,820	14,901
Contractual services	2,980	260	3,240
Property taxes	886,729	384,444	1,271,173
Administrative fee	-	11,100	11,100
Advertising revenue	6,085	-	6,085
Interest income	2,353	813	3,166
Gain on sale of capital assets	-	-	-
Other	205	2,789	2,994
	<hr/>	<hr/>	<hr/>
Total local revenues	\$ 1,042,673	\$ 456,864	\$ 1,499,537

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

SCHEDULE OF EXPENDITURES OF STATE AND FEDERAL AWARDS (2)

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

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		
U.S. Department of Transportation									
Federal Transit Cluster									
Direct assistance									
Formula grants									
2019 Operating Assistance - Section 5307	20.507	MI-2019-032-01		\$ 531,448	\$ 380,597	\$ 380,597	\$ -	\$ -	\$ 150,851
2018 CMAQ Rolling Stock - Section 5307	20.507	MI-2018-023-02	2017-0061/P4	310,000	119,654	95,723	23,931	-	190,346
2017 CMAQ Other Capital - Section 5307	20.507	MI-2017-025-03	2017-0061/P2	40,000	13,131	10,505	2,626	-	-
2016 CMAQ Rolling Stock - Section 5307	20.507	MI-2016-019-00	12-05087/P23	544,000	-	-	-	-	24,624
2016 CMAQ Other Capital - Section 5307	20.507	MI-2016-019-00	12-05087/P23	33,063	33,063	26,450	6,613	-	-
Total formula grants				1,458,511	546,445	513,275	33,170	-	365,821
Bus and bus facilities formula program									
2017 Rolling Stock - Section 5339	20.526	MI-2017-025-02	2017-0061/P2	60,861	60,861	48,689	12,172	-	-
2018 Rolling Stock - Section 5339	20.526	MI-2018-023-03	2017-0061/P4	81,513	13,777	11,021	2,756	-	67,736
Total bus and bus facilities formula program				142,374	74,638	59,710	14,928	-	67,736
Total direct assistance				1,600,885	621,083	572,985	48,098	-	433,557
Passed through Michigan Department of Transportation									
Bus and bus facilities formula program									
Capital grant - Section 5339	20.526	MI 34-0003-03	12-0087/P21	27,663	3,243	2,594	649	-	-
Total passed through Michigan Department of Transportation				27,663	3,243	2,594	649	-	-
Total U.S. Department of Transportation				1,628,548	624,326	575,579	48,747	-	433,557
Michigan Department of Transportation									
Operating assistance - Act 51 receipts 2019	N/A	N/A		1,492,548	1,209,931	-	1,209,931	-	
Operating assistance - Act 51 accrual 2019	N/A	N/A		110,000	110,000	-	110,000	-	
Operating assistance - Act 51 receipts 2018	N/A	N/A		282,617	282,617	-	282,617	-	
Operating assistance - Act 51 preliminary reconciliation	N/A	N/A		220,851	220,851	-	220,851	-	
Total Michigan Department of Transportation				2,106,016	1,823,399	-	1,823,399	-	
Total				\$ 3,734,564	\$ 2,447,725	\$ 575,579	\$ 1,872,146	\$ -	\$ 433,557

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

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

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

	<u>July 1, 2018 to September 30, 2018</u>	<u>October 1, 2018 to September 30, 2019</u>	<u>Total</u>
Michigan Department of Transportation			
Local Bus Operating (Act 51) - receipts	\$ 282,617	\$ 1,209,931	\$ 1,492,548
Local Bus Operating (Act 51) - accrual	-	110,000	110,000
Local Bus Operating (Act 51) - 2017 prelim rec	-	220,851	220,851
Federal Transit Administration			
Section 5307	-	380,597	380,597
Total	<u>\$ 282,617</u>	<u>\$ 1,921,379</u>	<u>\$ 2,203,996</u>

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

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>October 1, 2017 to June 30, 2018</u>	<u>July 1, 2018 to September 30, 2018</u>	<u>Total</u>
Michigan Department of Transportation			
Local Bus Operating (Act 51)	\$ 918,314	\$ 282,617	\$ 1,200,931
Federal Transit Administration			
Section 5307 - restated	(411,031)	-	(411,031)
Section 5307 - accrued	411,031	-	411,031
Total	<u>\$ 918,314</u>	<u>\$ 282,617</u>	<u>\$ 1,200,931</u>

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 3 - Operating and Contract Expenses

FOR THE FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Operating Contract</u>	<u>Total</u>
Labor	\$ 2,448,256	\$ -	\$ -	\$ -	\$ 2,448,256
Fringe benefits	603,113	-	-	-	603,113
Pension - defined benefit	172,713	-	-	-	172,713
Other post-employment benefits	62,048	-	-	-	62,048
Professional and contractual services	375,879	-	-	-	375,879
Fuel and supplies	508,247	-	-	-	508,247
Utilities	44,149	-	-	-	44,149
Casualty and liability costs	55,790	-	-	-	55,790
Other	16,356	-	-	-	16,356
Depreciation	<u>393,017</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>393,017</u>
Total	<u><u>\$ 4,679,568</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,679,568</u></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 \$29,922 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 FIFTEEN-MONTH PERIOD ENDED SEPTEMBER 30, 2019

	<u>July 1, 2018 to September 30, 2018</u>	<u>October 1, 2018 to September 30, 2019</u>	<u>Total</u>
Labor	\$ 444,254	\$ 2,004,002	\$ 2,448,256
Fringe benefits	111,842	491,271	603,113
Pension - defined benefit	29,723	142,990	172,713
Other post-employment benefits	13,618	48,430	62,048
Professional and contractual services	67,977	307,902	375,879
Fuel and supplies	87,633	420,614	508,247
Utilities	6,977	37,172	44,149
Casualty and liability costs	-	55,790	55,790
Other	5,601	10,755	16,356
Depreciation	82,530	310,487	393,017
	<hr/>	<hr/>	<hr/>
Total	\$ 850,155	\$ 3,829,413	\$ 4,679,568

Schedule 3B - Operating and Contract Expenses

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>October 1, 2017 to June 30, 2018</u>	<u>July 1, 2018 to September 30, 2018</u>	<u>Total</u>
Labor	\$ 1,361,669	\$ 444,254	\$ 1,805,923
Fringe benefits	356,797	111,842	468,639
Pension - defined benefit	81,802	29,723	111,525
Other post-employment benefits	42,517	13,618	56,135
Professional and contractual services	278,656	67,977	346,633
Fuel and supplies	259,772	87,633	347,405
Utilities	25,052	6,977	32,029
Casualty and liability costs	51,876	-	51,876
Other	20,963	5,601	26,564
Depreciation	262,493	82,530	345,023
	<hr/>	<hr/>	<hr/>
Total	\$ 2,741,597	\$ 850,155	\$ 3,591,752

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 4R - Urban Regular Service Revenue Report

FOR THE YEAR ENDED SEPTEMBER 30, 2018

<u>Description</u>	<u>Amount</u>
Fare box revenue	
Passenger fares	\$ 201,779
Contract fares	3,240
Auxiliary transit revenue	
Advertising	6,085
Other revenue	
Administrative services	11,100
Local revenue	
Taxes levied directly for/by transit agency	1,271,173
State formula and contracts	
State operating assistance	1,200,931
Federal contracts	
Section 5307 (operating funds)	-
Other revenue	
Refunds and credits	2,994
Interest income	<u>3,166</u>
Total	<u>\$ 2,700,468</u>

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 4R - Urban Regular Service Revenue Report

FOR THE YEAR ENDED SEPTEMBER 30, 2019

<u>Description</u>	<u>Amount</u>
Fare box revenue	
Passenger fares	\$ 201,507
Contract fares	780
Auxiliary transit revenue	
Advertising	5,165
Local revenue	
Taxes levied directly for/by transit agency	1,381,689
State formula and contracts	
State operating assistance	1,209,931
State operating assistance accrued	110,000
Federal contracts	
Section 5307 (operating funds)	380,597
Other revenue	
Refunds and credits	1,212
Interest income	<u>8,723</u>
Total	<u>\$ 3,299,604</u>

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 4E - Urban Regular Service Expense Report

FOR THE YEAR ENDED SEPTEMBER 30, 2018

<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>General Admin.</u>	<u>Total</u>
Labor				
Operator salaries and wages	\$ 1,241,392	\$ 73,490	\$ 311,174	\$ 1,626,056
Dispatcher salaries and wages	179,867	-	-	179,867
Fringe Benefits				
Other fringe benefits	357,115	21,241	90,283	468,639
Pension - defined benefit	62,847	7,397	41,281	111,525
Other post-employment benefits	31,143	3,526	21,466	56,135
Services				
Advertising fees	19,408	-	-	19,408
Audit cost	-	-	6,750	6,750
Other services	54,552	71,350	194,573	320,475
Materials and Supplies				
Fuel and lubricants	216,756	-	-	216,756
Tires and tubes	-	17,707	-	17,707
Other materials and supplies	29,232	74,000	9,710	112,942
Utilities				
Utilities	23,343	-	8,686	32,029
Insurance				
Liability insurance	51,876	-	-	51,876
Misc. expenses				
Travel, meetings, training	7,449	-	2,881	10,330
Association dues and subscriptions	-	-	10,204	10,204
Other	5,408	-	622	6,030
Depreciation				
Depreciation	345,023	-	-	345,023
Total operating expense	<u>\$ 2,625,411</u>	<u>\$ 268,711</u>	<u>\$ 697,630</u>	<u>3,591,752</u>
Ineligible Expenses				
Depreciation	-	-	345,023	345,023
Ineligible refunds and credits	-	-	2,994	2,994
CMAQ grants not capitalized	-	-	33,063	33,063
MPTA dues	-	-	710	710
Administrative fee revenues for staff shared with the airport	-	-	11,100	11,100
Total ineligible expenses				<u>392,890</u>
Total eligible expenses				<u>\$ 3,198,862</u>

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 4E - Urban Regular Service Expense Report

FOR THE YEAR ENDED SEPTEMBER 30, 2019

<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>General Admin.</u>	<u>Total</u>
Labor				
Operator salaries and wages	\$ 1,311,618	\$ 103,954	\$ 330,377	\$ 1,745,949
Dispatcher salaries and wages	258,053	-	-	258,053
Fringe Benefits				
Other fringe benefits	385,734	20,863	84,674	491,271
Pension - defined benefit	84,183	13,757	45,050	142,990
Other post-employment benefits	28,794	4,769	14,867	48,430
Services				
Advertising fees	25,451	-	-	25,451
Audit cost	-	-	2,589	2,589
Other services	47,339	63,726	168,797	279,862
Materials and Supplies				
Fuel and lubricants	236,015	-	-	236,015
Tires and tubes	-	22,156	-	22,156
Other materials and supplies	148,755	7,902	5,786	162,443
Utilities				
Utilities	27,690	-	9,482	37,172
Insurance				
Liability insurance	52,280	-	3,510	55,790
Misc. expenses				
Travel, meetings, training	2,563	-	2,529	5,092
Association dues and subscriptions	-	-	4,613	4,613
Other	679	-	371	1,050
Depreciation				
Depreciation	310,487	-	-	310,487
Total operating expense	<u>\$ 2,919,641</u>	<u>\$ 237,127</u>	<u>\$ 672,645</u>	<u>3,829,413</u>
Ineligible Expenses				
Depreciation	-	-	310,487	310,487
Ineligible refunds and credits	-	-	1,212	1,212
Other ineligible expenses	-	-	3,243	3,243
CMAQ grants not capitalized	-	-	29,922	29,922
MPTA dues	-	-	651	651
Administrative fee revenues for staff shared with the airport	-	-	-	-
Total ineligible expenses				<u>345,515</u>
Total eligible expenses				<u>\$ 3,483,898</u>

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 4N - Urban Regular Service Non-Financial Report

FOR THE YEAR ENDED SEPTEMBER 30, 2018

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
610	Vehicle hours	55,234	3,631	1,490	60,355
611	Vehicle miles	733,661	47,677	14,298	795,636

The methodology used for compiling mileage on OAR Schedule 4N is an adequate and reliable method for recording non-financial data.

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

Schedule 4N - Urban Regular Service Non-Financial Report

FOR THE YEAR ENDED SEPTEMBER 30, 2019

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
610	Vehicle hours	57,213	3,768	1,302	62,283
611	Vehicle miles	741,216	51,478	12,504	805,198

The methodology used for compiling mileage on OAR Schedule 4N is 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, 2018

	<u>Urban</u>
State eligible expenses	
Labor	\$ 1,805,923
Fringe benefits	636,299
Professional and contractual	346,633
Fuel and supplies	347,405
Utilities	32,029
Casualty and liability costs	51,876
Other	26,564
Depreciation	<u>345,023</u>
Total expenses	<u>3,591,752</u>
Less ineligible expenses	
Depreciation	345,023
Ineligible refunds and credits	2,994
CMAQ grants not capitalized	33,063
MPTA dues	710
Administrative fee revenues for staff shared with the airport	<u>11,100</u>
Total ineligible expenses	<u>392,890</u>
State eligible expenses	<u>\$ 3,198,862</u>
State operating assistance - 39.1981%	<u><u>\$ 1,253,893</u></u>
Federal eligible expenses	
State eligible expenses	\$ 3,198,862
Less additional federal ineligible expenses	
Audit costs	<u>6,750</u>
Federal eligible expenses	<u><u>\$ 3,192,112</u></u>
Section 5307 reimbursement - 50% with maximum of \$0	<u><u>\$ -</u></u>

HARBOR TRANSIT MULTI-MODAL TRANSPORTATION SYSTEM

OPERATING ASSISTANCE CALCULATION (5)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Urban</u>
State eligible expenses	
Labor	\$ 2,004,002
Fringe benefits	682,691
Professional and contractual	307,902
Fuel and supplies	420,614
Utilities	37,172
Casualty and liability costs	55,790
Other	10,755
Depreciation	<u>310,487</u>
Total expenses	<u>3,829,413</u>
Less ineligible expenses	
Depreciation	310,487
Ineligible refunds and credits	1,212
Other ineligible expenses	3,243
CMAQ grants not capitalized	29,922
MPTA dues	651
Administrative fee revenues for staff shared with the airport	<u>-</u>
Total ineligible expenses	<u>345,515</u>
State eligible expenses	<u>\$ 3,483,898</u>
 State operating assistance - 38.0667%	 <u>\$ 1,326,205</u>
Federal eligible expenses	
State eligible expenses	\$ 3,483,898
Less additional federal ineligible expenses	
Audit costs	<u>2,589</u>
Federal eligible expenses	<u>\$ 3,481,309</u>
Section 5307 reimbursement - 50% with maximum of \$531,448	<u>\$ 531,448</u>

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INTERNAL CONTROL AND COMPLIANCE



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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

March 9, 2020

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 fifteen-month period ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated March 9, 2020.

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*.

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.

Vredexeld Haefner LLC