

# BATTLE CREEK TRANSIT SYSTEM

Year Ended  
June 30, 2022

Financial  
Statements and  
Supplementary  
Information

**Rehmann**

**This page intentionally left blank.**

# BATTLE CREEK TRANSIT SYSTEM

## Table of Contents

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Basic Financial Statements</b>	
Statement of Net Position	6
Statement of Revenues, Expenses and Change in Fund Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9
<b>Supplementary Schedules</b>	
Michigan Bureau of Passenger Transportation Schedules:	
Schedule 1 – Schedule of Local Revenues – Year Ended June 30, 2022	16
Schedule 1A – Schedule of Local Revenues – Year Ended September 30, 2021	17
Schedule 2 – Schedule of Expenditures of Federal and State Awards	18
Schedules 2A and B – Schedules of Federal and State Awards	20
Schedule 3 – Schedule of Operating and Contract Expenses	22
Schedule 3A – Schedule of Operating Expenses – Year Ended June 30, 2022	24
Schedule 3B – Schedule of Operating Expenses – Year Ended September 30, 2021	28
Schedule 4R – Urban (Less than 100,000) Regular Service Revenue Report	31
Schedule 4E – Urban (Less than 100,000) Regular Service Expense Report	32
Schedule 4N – Urban (Less than 100,000) Regular Service Nonfinancial Report (Unaudited)	33
Schedule 4R – New Freedom Regular Service Revenue Report	34
Schedule 4E – New Freedom Regular Service Expense Report	35
Schedule 4N – New Freedom Regular Service Nonfinancial Report (Unaudited)	36
Schedule 5 – Operating Assistance Calculation	37
<b>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 <i>Government Auditing Standards</i></b>	39



**This page intentionally left blank.**

## INDEPENDENT AUDITORS' REPORT

December 22, 2022

To the Honorable Mayor and  
Members of the City Commission  
City of Battle Creek, Michigan

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the **Battle Creek Transit System** (the "System"), an enterprise fund of the City of Battle Creek, Michigan, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the **Battle Creek Transit System**, an enterprise fund of the City of Battle Creek, Michigan, as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

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



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

### ***Independent Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

### ***Reporting Entity***

As discussed in Note 1, the financial statements present only the ***Battle Creek Transit System*** and do not purport to, and do not, present fairly the financial position of the City of Battle Creek, Michigan, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Supplementary 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 supplementary schedules required for the Michigan Bureau of Passenger Transportation (excluding the nonfinancial data schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Schedule 4N - Urban (Less than 100,000) Regular Service Nonfinancial Report and Schedule 4N - New Freedom Regular Service Nonfinancial Report, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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 December 22, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

**This page intentionally left blank.**



## **BASIC FINANCIAL STATEMENTS**

## BATTLE CREEK TRANSIT SYSTEM

### Statement of Net Position

June 30, 2022

#### Assets

##### Current assets:

Due from other governments	\$ 2,225,336
Accounts receivable	3,284
Inventory	135,901
Total current assets	<u>2,364,521</u>

##### Noncurrent assets:

Capital assets not being depreciated	66,499
Capital assets being depreciated, net	1,455,102
Total noncurrent assets	<u>1,521,601</u>

<b>Total assets</b>	<u><b>3,886,122</b></u>
---------------------	-------------------------

#### Deferred outflows of resources

Deferred pension amounts	891,458
Deferred other postemployment benefit amounts	<u>429,550</u>

<b>Total deferred outflows of resources</b>	<u><b>1,321,008</b></u>
---	-------------------------

#### Liabilities

##### Current liabilities:

Accounts payable	43,495
Accrued payroll	2,189
Compensated absences, current portion	72,025
Interfund payable to other funds of the City	1,110,283
Unearned revenue	150,000
Total current liabilities	<u>1,377,992</u>

##### Noncurrent liabilities:

Compensated absences	8,004
Net pension liability	6,180,295
Net other postemployment benefit liability	1,483,761
Total noncurrent liabilities	<u>7,672,060</u>

<b>Total liabilities</b>	<u><b>9,050,052</b></u>
--------------------------	-------------------------

#### Deferred inflows of resources

Deferred pension amounts	695,154
Deferred other postemployment benefit amounts	<u>2,096,154</u>

<b>Total deferred inflows of resources</b>	<u><b>2,791,308</b></u>
--	-------------------------

#### Net position

Investment in capital assets	1,521,601
Unrestricted (deficit)	<u>(8,155,831)</u>

<b>Total net position</b>	<u><u><b>\$ (6,634,230)</b></u></u>
---------------------------	-------------------------------------

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

## BATTLE CREEK TRANSIT SYSTEM

### Statement of Revenues, Expenses and Change in Fund Net Position

For the Year Ended June 30, 2022

<b>Operating revenues</b>	
Line-haul (farebox)	\$ 234,079
Advertising	43,549
Other operating revenue	<u>12,447</u>
<b>Total operating revenues</b>	<u>290,075</u>
<b>Operating expenses</b>	
Operations	3,440,437
Maintenance	690,314
General administration	(811,919)
Depreciation	<u>310,875</u>
<b>Total operating expenses</b>	<u>3,629,707</u>
Operating loss	<u>(3,339,632)</u>
<b>Nonoperating revenues (expenses)</b>	
Federal grants:	
Operating grant - Section 5307	2,344,027
Planning grants	58,101
State grants:	
Formula operating assistance	1,771,616
Planning grants	365,700
Loss on disposal of capital assets	<u>(100,230)</u>
<b>Total nonoperating revenues</b>	<u>4,439,214</u>
Net income before transfers	1,099,582
<b>Transfers in from other City funds</b>	<u>229,995</u>
<b>Change in net position</b>	1,329,577
Net position, beginning of year	<u>(7,963,807)</u>
<b>Net position, end of year</b>	<u><u>\$ (6,634,230)</u></u>

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

## BATTLE CREEK TRANSIT SYSTEM

### Statement of Cash Flows

For the Year Ended June 30, 2022

#### Cash flows from operating activities

Receipts from customers and users	\$ 437,579
Payments to suppliers	(1,123,964)
Payments to employees	(4,617,241)
Payments for interfund services	(94,559)

<b>Net cash used in operating activities</b>	<b>(5,398,185)</b>
--	--------------------

#### Cash flows from noncapital financing activities

Transfers in from other City funds	229,995
Federal and state grants	5,168,190

<b>Net cash provided by noncapital financing activities</b>	<b>5,398,185</b>
---	------------------

<b>Net change in pooled cash and investments</b>	<b>-</b>
--	----------

Pooled cash and investments, beginning of year	-
--	---

<b>Pooled cash and investments, end of year</b>	<b>\$ -</b>
---	-------------

#### Reconciliation of operating loss

##### to net cash used in operating activities

Operating loss	\$ (3,339,632)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	310,875
Changes in assets and liabilities:	
Accounts receivable	(2,496)
Inventory	(6,142)
Prepaid expenses	5,319
Accounts payable and accrued payroll	7,621
Compensated absences	(16,754)
Interfund payable to other funds of the City	(1,115,841)
Unearned revenue	150,000
Net pension liability	(158,864)
Deferred outflows related to the net pension liability	(57,604)
Deferred inflows related to the net pension liability	411,754
Net other postemployment benefit liability	(3,058,931)
Deferred outflows related to the net other postemployment benefit liability	115,497
Deferred inflows related to the net other postemployment benefit liability	1,357,013

<b>Net cash used in operating activities</b>	<b>\$ (5,398,185)</b>
--	-----------------------

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

## **NOTES TO FINANCIAL STATEMENTS**

# BATTLE CREEK TRANSIT SYSTEM

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Battle Creek Transit System (the "System") is an enterprise fund of the City of Battle Creek, Michigan (the "City"). The System provides public transportation services to users in the City and portions of the surrounding area. The accounting policies of the System conform with generally accepted accounting principles as applicable to proprietary funds. A summary of significant accounting policies follows.

#### Reporting Entity

These financial statements present the financial condition, results of operations and cash flows of an enterprise fund of the City and are an integral part of that reporting entity. The System is not a component unit of the City or any other reporting entity.

#### Basis of Accounting

The System uses a fund (i.e., a separate accounting entity with a self balancing set of accounts) to report its financial position, the results of its operations and its cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The System is operated as an enterprise fund, which is used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Enterprise funds are accounted for on the flow of *economic resources measurement focus* and use the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

#### Pooled Cash and Investments

The System's pooled cash and investments, if any, represents amounts deposited entirely in the City's internal cash management pool.

#### Inventory

Inventory is valued at cost using the first-in/first-out method.

# BATTLE CREEK TRANSIT SYSTEM

## Notes to Financial Statements

### Capital Assets

Capital assets, which include property and equipment, are reported at cost or, if donated, at their acquisition cost as of the date of donation. The System defines capital assets as assets with an initial, individual cost of \$10,000 or more and estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The System's capital assets are depreciated using the straight line method over the following estimated useful lives:

	Years
Land improvements	5-50
Buildings	50
Equipment	3-10
Vehicles	7-10

### Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. Sick pay benefits are not provided pursuant to the City's short-term disability program.

### Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources until then. The System reports deferred outflows of resources related to the net pension and other postemployment benefit liabilities. A portion of these costs represent contributions to the pension plan subsequent to the plan measurement date.

### Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to future periods and so will not be recognized as an inflow of resources until that time. The System reports deferred inflows of resources related to its pension and other postemployment benefit plans.

# BATTLE CREEK TRANSIT SYSTEM

## Notes to Financial Statements

### Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefit expense, information about the fiduciary net position and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Complete information regarding the System's pension and other postemployment benefit plans can be found in the City's annual comprehensive financial report.

## 2. POOLED CASH AND INVESTMENTS

The System, along with the various other funds of the City, participates in the City's pooled cash management accounts. At June 30, 2022, the System had a negative cash balance in the City's cash pool of \$1,110,283, which is reported in the accompanying statement of net position as an interfund payable. Information regarding this internal cash management pool is presented in the City's annual comprehensive financial report.

## 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 66,499	\$ -	\$ -	\$ 66,499
Capital assets being depreciated:				
Land improvements	104,108	-	-	104,108
Buildings	2,907,148	-	-	2,907,148
Equipment	653,378	-	(127,789)	525,589
Vehicles	3,841,581	-	(200,460)	3,641,121
	<u>7,506,215</u>	<u>-</u>	<u>(328,249)</u>	<u>7,177,966</u>
Less accumulated depreciation for:				
Land improvements	(104,108)	-	-	(104,108)
Buildings	(2,192,093)	(110,704)	-	(2,302,797)
Equipment	(555,231)	(22,532)	127,789	(449,974)
Vehicles	(2,788,576)	(177,639)	100,230	(2,865,985)
	<u>(5,640,008)</u>	<u>(310,875)</u>	<u>228,019</u>	<u>(5,722,864)</u>
Total capital assets being depreciated, net	<u>1,866,207</u>	<u>(310,875)</u>	<u>(100,230)</u>	<u>1,455,102</u>
<b>System capital assets, net</b>	<u>\$ 1,932,706</u>	<u>\$ (310,875)</u>	<u>\$ (100,230)</u>	<u>\$ 1,521,601</u>



# BATTLE CREEK TRANSIT SYSTEM

## Notes to Financial Statements

### 4. RISK MANAGEMENT

The System participates in the City's self-insurance program for liability and worker's compensation insurance coverage. Property insurance coverage is provided by commercial carriers through the City's self-insurance fund.

### 5. MICHIGAN DEPARTMENT OF TRANSPORTATION (MDOT) ASSURANCES

The methodology used for compiling miles for Regular Service and New Freedom Service have been reviewed and the recording method has been found to be adequate and reliable.

Depreciation expense included as eligible only includes assets purchased with local funds where the useful life of the asset was determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by the Office of Passenger Transportation (OPT).

Ineligible expenses are classified appropriately according to the definition in the MDOT Local Public Transit Revenue and Expense Manual (referred to as the R&E Manual). With regards thereto, the System did not incur any expenses in order to earn the advertising revenue reported in Schedule 4R (code 40615) as a result of the vendors being responsible for advertising and the related expenses; accordingly, no expenses are subtracted out as ineligible on Schedule 4E or on Schedule 5. All expenses associated with code 40799 non-transportation are subtracted out as ineligible. The System has a cost allocation plan for data processing costs where the methodology has been approved by the Office of Passenger Transportation. This cost allocation plan was adhered to in the preparation of the financial statements. The cost allocation plan resulted in \$60,909 in allowable expenses associated with code 55008, and the remaining balance of \$15,417 was subtracted out as ineligible as they are related to the System's data processing charges and not approved within the cost allocation plan.

Expenses for retirement benefits (i.e., pension and other postemployment benefit (OPEB) contributions) are based on actual amounts paid. Therefore, such costs are eligible in accordance with the R&E Manual.

During the fiscal year, the System paid \$472,547 in defined benefit pension contributions. This amount is based on the actuarial determined contribution (ADC) and does not include any excess contributions or expense based on GASB 68. This amount is charged to code 50220 DB (defined benefit) was calculated pursuant to the methodology in the MERS Implementation Guide. Additionally, the System expensed \$195,286 during the fiscal year based on GASB 68. For the plan year October 1, 2020 through September 30, 2021, the System paid \$458,172 in defined benefit pension contributions based on ADC which was included in charge code 50220, and the amount expensed based on GASB 68 was \$147,953 which is included as an ineligible expense for reimbursement and charged to code 58020. For further information on the pension plan in which the System participates, see footnote 18 of the City of Battle Creek's financial statements.

During the fiscal year, the System decreased expenses by \$1,586,421 for defined benefit other postemployment benefits during the fiscal year based on GASB 75. For further information on the other postemployment benefit plan in which the System participates, see footnote 19 of the City of Battle Creek's financial statements.

## BATTLE CREEK TRANSIT SYSTEM

### Notes to Financial Statements

#### 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 or ineligible 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 City expects such amounts, if any, to be immaterial.

#### 7. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the System to provide services, the Federal Government has provided significant resources to help mitigate the impacts of COVID-19. Over the past two years, the System has been awarded funds from various sources to be used to respond to the impacts of the COVID-19 pandemic. Of the amount awarded, \$2,222,548 was expended and recognized as revenue during the current fiscal year. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the System.

■ ■ ■ ■ ■

**SUPPLEMENTARY SCHEDULES  
MICHIGAN BUREAU OF PASSENGER  
TRANSPORTATION SCHEDULES**

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Local Revenues

Schedule 1

For the Year Ended June 30, 2022

	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total
Line haul - farebox	\$ 62,980	\$ 171,099	\$ 234,079
Advertising	6,145	37,404	43,549
Other operating revenue	32	12,415	12,447
Transfers in from other City funds	57,499	172,496	229,995
<b>Total local revenues</b>	<b>\$ 126,656</b>	<b>\$ 393,414</b>	<b>\$ 520,070</b>

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Local Revenues

Schedule 1A

For the Year Ended September 30, 2021

	10/01/2020 through 6/30/2021	7/01/2021 through 9/30/2021	Total
Line haul - farebox	\$ 188,058	\$ 62,980	\$ 251,038
Advertising	17,899	6,145	24,044
Other operating revenue	1,403	32	1,435
Transfers in from other City funds	203,625	57,499	261,124
<b>Total local revenues</b>	<b>\$ 410,985</b>	<b>\$ 126,656</b>	<b>\$ 537,641</b>

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Expenditures of Federal and State Awards

Schedule 2

For the Year Ended June 30, 2022

Federal and State Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Grant No./ Authorization Number	Program Award Amount
<b>U.S. Department of Transportation</b>			
Federal Direct Assistance:			
FY20 Section 5307 CARES Act	20.507	MI-2020-028-01	\$ 3,962,714
FY21 Section 5307 American Rescue Plan Act (ARPA)	20.507	MI-2021-014-00	1,995,184
FY21 Section 5310 - New Freedom Program	20.513	MI-2020-068-00	229,995
FY21 Section 5310 - New Freedom Program	20.513	MI-2020-068-00	66,000
FY22 Section 5310 - New Freedom Program	20.513	MI-2021-055-00	207,524
FY22 Section 5310 - New Freedom Program	20.513	MI-2021-055-00	66,000
<b>Michigan Department of Transportation</b>			
Operating Assistance - Act 51 - Urban less than 100,000	N/A	N/A	1,771,616
Specialized Services 21	N/A	2017-0015/P8	108,434
Specialized Services 22	N/A	2022-0014/P1	108,434
Section 5339 Discretionary Funds	N/A	2017-0015/P6	400,000
FY16 Section 5339 Bus & Bus Facilities Formula	N/A	2012-0040/P15	22,915
FY21 Section 5310 New Freedom Program	N/A	2017-0015/P13	16,500
FY22 Section 5310 New Freedom Program	N/A	2022-0014/P2	16,500
FY19 Section 5310 100% State Services Initiatives	N/A	2017-0015/P9/R1	695,505
<b>Total</b>			

--

Current Year Expenditures			Prior Year Expenditures	Award Amount Remaining
Total	Federal	State		
\$ 577,967	\$ 577,967	\$ -	\$ 3,384,747	\$ -
1,644,581	1,644,581	-	-	350,603
28,366	28,366	-	93,875	107,754
16,000	16,000	-	44,843	5,157
93,113	93,113	-	-	114,411
42,101	42,101	-	-	23,899
1,771,616	-	1,771,616	-	-
51,146	-	51,146	57,288	-
64,632	-	64,632	-	43,802
-	-	-	399,978	22
-	-	-	3,277	19,638
4,000	-	4,000	11,211	1,289
10,524	-	10,524	-	5,976
235,398	-	235,398	183,722	276,385
<u>\$ 4,539,444</u>	<u>\$ 2,402,128</u>	<u>\$ 2,137,316</u>	<u>\$ 4,178,941</u>	<u>\$ 948,936</u>

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Federal and State Awards

Schedule 2A

For the Year Ended June 30, 2022

	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total
<b>Federal grants</b>			
CARES Act grant - Section 5307	\$ 571,046	\$ 6,920	\$ 577,966
American Rescue Plan Act - Section 5307	-	1,644,581	1,644,581
New Freedom grant - Section 5310	24,185	97,295	121,480
	<u>595,231</u>	<u>1,748,796</u>	<u>2,344,027</u>
<b>State of Michigan grant</b>			
Formula operating assistance	<u>353,933</u>	<u>1,417,683</u>	<u>1,771,616</u>
<b>Total</b>	<u>\$ 949,164</u>	<u>\$ 3,166,479</u>	<u>\$ 4,115,643</u>



## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Federal and State Awards

Schedule 2B

For the Year Ended September 30, 2021

	10/01/2020 through 6/30/2021	7/01/2021 through 9/30/2021	Total
<b>Federal grants</b>			
CARES Act grant - Section 5307	\$ 1,643,507	\$ 571,046	\$ 2,214,553
New Freedom grant - Section 5310	93,875	24,185	118,060
	<u>1,737,382</u>	<u>595,231</u>	<u>2,332,613</u>
<b>State of Michigan grant</b>			
Formula operating assistance	<u>1,712,222</u>	<u>353,933</u>	<u>2,066,155</u>
<b>Total</b>	<u><u>\$ 3,449,604</u></u>	<u><u>\$ 949,164</u></u>	<u><u>\$ 4,398,768</u></u>

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Operating and Contract Expenses

Schedule 3

For the Year Ended June 30, 2022

	Urban less than 100,000	2017-0015/P13 FY21 New Freedom	2022-0014/P2 FY22 New Freedom
<b>Expenses</b>			
Labor:			
Operators' salaries and wages	\$ 1,353,551	\$ 20,640	\$ 32,837
Other salaries and wages	557,573	8,535	13,507
Fringe benefits	1,129,022	17,579	27,176
Pension	(1,391,135)	-	-
Services:			
Advertising	-	-	-
Other services	250,987	5,202	5,276
Materials and supplies:			
Fuel and lubricants	401,341	6,504	9,510
Other materials and supplies	233,214	2,944	6,019
Utilities	67,520	565	1,912
Insurance expense	75,115	1,040	1,885
Miscellaneous expenses:			
Travel, meetings and training	4,939	114	97
Association dues and subscriptions	10,753	320	169
Taxes and fees	63	-	2
Leases and rentals	12,316	63	372
Pass through	-	-	-
Depreciation	300,865	-	10,010
<b>Net operating expenses</b>	<u>\$ 3,006,124</u>	<u>\$ 63,506</u>	<u>\$ 108,772</u>



2017-0015/P8 FY21 Specialized Services	2022-0014/P1 FY22 Specialized Services	2017-0015/P13 FY21 Mobility Management	2022-0014/P2 FY22 Mobility Management	2017-0015/P9 FY21 State Services Initiatives	Total
\$ 2,924	\$ 8,211	\$ -	\$ -	\$ 137,760	\$ 1,555,923
-	-	13,367	36,426	-	629,408
1,762	4,750	5,274	14,347	99,403	1,299,313
-	-	-	-	-	(1,391,135)
-	-	-	-	6,145	6,145
376	418	-	-	18,567	280,826
308	1,200	-	-	-	418,863
290	857	-	-	1,027	244,351
35	288	-	-	-	70,320
-	-	-	-	-	78,040
-	7	1,359	1,853	-	8,369
-	26	-	-	-	11,268
-	1	-	-	-	66
6	9	-	-	-	12,766
45,444	48,865	-	-	-	94,309
-	-	-	-	-	310,875
<u>\$ 51,145</u>	<u>\$ 64,632</u>	<u>\$ 20,000</u>	<u>\$ 52,626</u>	<u>\$ 262,902</u>	<u>\$ 3,629,707</u>

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Operating Expenses

Schedule 3A

For the Year Ended June 30, 2022

	Urban less than 100,000			2017-0015/P13 FY21 New Freedom		
	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total
<b>Expenses</b>						
Labor	\$ 518,204	\$ 1,392,920	\$ 1,911,124	\$ 29,175	\$ -	\$ 29,175
Fringe benefits	312,225	816,797	1,129,022	17,579	-	17,579
Pension	-	(1,391,135)	(1,391,135)	-	-	-
Services	92,398	158,589	250,987	5,202	-	5,202
Materials and supplies	167,810	466,745	634,555	9,448	-	9,448
Utilities	10,042	57,478	67,520	565	-	565
Insurance expense	18,469	56,646	75,115	1,040	-	1,040
Miscellaneous expenses	7,710	8,045	15,755	434	-	434
Leases and rentals	1,127	11,189	12,316	63	-	63
Pass through	-	-	-	-	-	-
Depreciation	77,719	223,146	300,865	-	-	-
<b>Total operating expenses</b>	1,205,704	1,800,420	3,006,124	63,506	-	63,506
Ineligible depreciation	(77,719)	(223,146)	(300,865)	-	-	-
Other ineligible expenses	(4,070)	(10,760)	(14,830)	(229)	-	(229)
Ineligible percent of association dues	(568)	(653)	(1,221)	(32)	-	(32)
Other ineligible expense associated with auxiliary and nontransportation reven	(32)	(12,015)	(12,047)	-	-	-
Ineligible JARC & NF Fares	-	-	-	(2,954)	-	(2,954)
Ineligible fringe benefits	-	1,391,135	1,391,135	-	-	-
<b>Total eligible expenses</b>	<u>\$ 1,123,315</u>	<u>\$ 2,944,981</u>	<u>\$ 4,068,296</u>	<u>\$ 60,291</u>	<u>\$ -</u>	<u>\$ 60,291</u>

2022-0014/P2 FY22 New Freedom			2017-0015/P8 FY21 Specialized Services		
7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total
\$ -	\$ 46,344	\$ 46,344	\$ 2,924	\$ -	\$ 2,924
-	27,176	27,176	1,762	-	1,762
-	-	-	-	-	-
-	5,276	5,276	376	-	376
-	15,529	15,529	598	-	598
-	1,912	1,912	35	-	35
-	1,885	1,885	-	-	-
-	268	268	-	-	-
-	372	372	6	-	6
-	-	-	45,444	-	45,444
-	10,010	10,010	-	-	-
-	108,772	108,772	<u>\$ 51,145</u>	<u>\$ -</u>	<u>\$ 51,145</u>
-	(10,010)	(10,010)			
-	(358)	(358)			
-	(25)	(25)			
-	(400)	(400)			
-	(4,867)	(4,867)			
-	-	-			
<u>\$ -</u>	<u>\$ 93,112</u>	<u>\$ 93,112</u>			

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Operating Expenses

Schedule 3A

For the Year Ended June 30, 2022

	2022-0014/P1 FY22 Specialized Services			2017-0015/P13 FY21 Mobility Management		
	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total
<b>Expenses</b>						
Labor	\$ -	\$ 8,211	\$ 8,211	\$ 13,367	\$ -	\$ 13,367
Fringe benefits	-	4,750	4,750	5,274	-	5,274
Pension	-	-	-	-	-	-
Services	-	418	418	-	-	-
Materials and supplies	-	2,057	2,057	-	-	-
Utilities	-	288	288	-	-	-
Insurance expense	-	-	-	-	-	-
Miscellaneous expenses	-	34	34	1,359	-	1,359
Leases and rentals	-	9	9	-	-	-
Pass through	-	48,865	48,865	-	-	-
Depreciation	-	-	-	-	-	-
<b>Total operating expenses</b>	<u>\$ -</u>	<u>\$ 64,632</u>	<u>\$ 64,632</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>

2022-0014/P2 FY22 Mobility Management			2017-0015/P9 FY21 State Services Initiatives			Total
7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total	7/01/2021 through 9/30/2021	10/01/2021 through 6/30/2022	Total	
\$ -	\$ 36,426	\$ 36,426	\$ 34,958	\$ 102,802	\$ 137,760	\$ 2,185,331
-	14,347	14,347	22,622	76,781	99,403	1,299,313
-	-	-	-	-	-	(1,391,135)
-	-	-	7,714	16,998	24,712	286,971
-	-	-	1,018	9	1,027	663,214
-	-	-	-	-	-	70,320
-	-	-	-	-	-	78,040
-	1,853	1,853	-	-	-	19,703
-	-	-	-	-	-	12,766
-	-	-	-	-	-	94,309
-	-	-	-	-	-	310,875
<u>\$ -</u>	<u>\$ 52,626</u>	<u>\$ 52,626</u>	<u>\$ 66,312</u>	<u>\$ 196,590</u>	<u>\$ 262,902</u>	<u>\$ 3,629,707</u>

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Operating Expenses

Schedule 3B

For the Year Ended September 30, 2021

	Urban less than 100,000			2017-0015/P13 FY21 New Freedom		
	10/01/2020 through 6/30/2021	7/01/2021 through 9/30/2021	Total	10/01/2020 through 6/30/2021	7/01/2021 through 9/30/2021	Total
<b>Expenses</b>						
Labor	\$ 1,592,209	\$ 518,204	\$ 2,110,413	\$ 94,275	\$ 29,175	\$ 123,450
Fringe benefits	925,422	312,225	1,237,647	54,795	17,579	72,374
Pension	147,953	-	147,953	-	-	-
Services	203,681	92,398	296,079	11,525	5,202	16,727
Materials and supplies	349,562	167,810	517,372	20,695	9,448	30,143
Utilities	38,998	10,042	49,040	2,844	565	3,409
Insurance expense	55,265	18,469	73,734	3,272	1,040	4,312
Miscellaneous expenses	5,124	7,710	12,834	305	434	739
Leases and rentals	10,199	1,127	11,326	604	63	667
Pass through	-	-	-	-	-	-
Depreciation	254,829	77,719	332,548	15,088	-	15,088
<b>Net operating expenses</b>	<b>3,583,242</b>	<b>1,205,704</b>	<b>4,788,946</b>	<b>203,403</b>	<b>63,506</b>	<b>266,909</b>
Ineligible depreciation	(254,829)	(77,719)	(332,548)	(15,088)	-	(15,088)
Other ineligible expenses	(12,211)	(4,070)	(16,281)	(723)	(229)	(952)
Ineligible percent of association dues	(595)	(568)	(1,163)	(35)	(32)	(67)
Other ineligible expense associated with auxiliary and nontransportation revenue	(1,326)	(32)	(1,358)	(78)	-	(78)
Ineligible JARC & NF Fares	-	-	-	(10,935)	(2,954)	(13,889)
Ineligible fringe benefits	(147,953)	-	(147,953)	-	-	-
<b>Total eligible expenses</b>	<b>\$ 3,166,328</b>	<b>\$ 1,123,315</b>	<b>\$ 4,289,643</b>	<b>\$ 176,544</b>	<b>\$ 60,291</b>	<b>\$ 236,835</b>



2017-0015/P8 FY21 Specialized Services			2017-0015/P13 FY21 Mobility Management		
10/01/2020 through 6/30/2021	7/01/2021 through 9/30/2021	Total	10/01/2020 through 6/30/2021	7/01/2021 through 9/30/2021	Total
\$ 9,130	\$ 2,924	\$ 12,054	\$ 40,152	\$ 13,367	\$ 53,519
5,308	1,762	7,070	15,902	5,274	21,176
-	-	-	-	-	-
591	376	967	-	-	-
1,805	598	2,403	-	-	-
221	35	256	-	-	-
-	-	-	-	-	-
30	-	30	-	1,359	1,359
9	6	15	-	-	-
40,194	45,444	85,638	-	-	-
-	-	-	-	-	-
<hr/>			<hr/>		
\$ 57,288	\$ 51,145	\$ 108,433	\$ 56,054	\$ 20,000	\$ 76,054

## BATTLE CREEK TRANSIT SYSTEM

### Schedule of Operating Expenses

Schedule 3B

For the Year Ended September 30, 2021

	2017-0015/P9 FY21 State Services Initiatives			
	10/01/2020 through 6/30/2021	7/01/2021 through 9/30/2021	Total	Total
<b>Expenses</b>				
Labor	\$ 44,039	\$ 34,958	\$ 78,997	\$ 2,378,433
Fringe benefits	28,730	22,622	51,352	1,389,619
Pension	-	-	-	147,953
Services	25,529	7,714	33,243	347,016
Materials and supplies	25,070	1,018	26,088	576,006
Utilities	-	-	-	52,705
Insurance expense	-	-	-	78,046
Miscellaneous expenses	288	-	288	15,250
Leases and rentals	-	-	-	12,008
Pass through	-	-	-	85,638
Depreciation	-	-	-	347,636
<b>Net operating expenses</b>	<u>\$ 123,656</u>	<u>\$ 66,312</u>	<u>\$ 189,968</u>	<u>\$ 5,430,310</u>

## BATTLE CREEK TRANSIT SYSTEM

### Urban (Less than 100,000) Regular Service Revenue Report

Schedule 4R

For the Year Ended September 30, 2021

Code	Description	Amount
<b>401</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 237,149
<b>406</b>	<b>Auxiliary Trans Revenues</b>	
40615	Advertising	24,044
<b>407</b>	<b>Non Trans Revenues</b>	
40799	Other Non Trans Revenue	1,357
<b>409</b>	<b>Local Revenue</b>	
40910	Local Operating Assistance	142,706
<b>411</b>	<b>State Formula and Contracts</b>	
41101	State Operating Assistance	1,415,726
<b>413</b>	<b>Federal Contracts</b>	
41361	Federal CARES Act	<u>2,214,553</u>
<b>Total revenues</b>		<u><u>\$ 4,035,535</u></u>

## BATTLE CREEK TRANSIT SYSTEM

### Urban (Less than 100,000) Regular Service Expense Report

Schedule 4E

For the Year Ended September 30, 2021

Code	Description	Line-Haul	Demand-Response	Total
<b>501</b>	<b>Labor</b>			
50101	Operators' salaries & wages	\$ 1,338,383	\$ -	\$ 1,338,383
50102	Other salaries & wages	586,794	-	586,794
50103	Dispatchers' salaries & wages	185,236	-	185,236
<b>502</b>	<b>Fringe benefits</b>			
50200	Other fringe benefits	804,765	-	804,765
50220	Defined Benefit (DB) Pensions	580,835	-	580,835
<b>503</b>	<b>Services</b>			
50302	Advertising fees	187	-	187
50305	Audit cost	21,284	-	21,284
50399	Other services	274,608	-	274,608
<b>504</b>	<b>Materials and supplies</b>			
50401	Fuel & lubricants	297,720	-	297,720
50402	Tires & tubes	36,046	-	36,046
50499	Other materials & supplies	183,606	-	183,606
<b>505</b>	<b>Utilities</b>			
50500	Utilities	49,040	-	49,040
<b>506</b>	<b>Insurance</b>			
50603	Liability insurance	63,587	-	63,587
50699	Other insurance	10,147	-	10,147
<b>509</b>	<b>Misc expenses</b>			
50700	Taxes and fees	183	-	183
50902	Travel, meetings & training	2,489	-	2,489
50903	Association dues & subscriptions	10,162	-	10,162
<b>512</b>	<b>Operating leases &amp; rentals</b>			
51200	Operating leases & rentals	11,326	-	11,326
<b>513</b>	<b>Depreciation</b>			
51300	Depreciation	332,548	-	332,548
<b>Total expenses</b>				<b>4,788,946</b>
<b>550</b>	<b>Ineligible expenses</b>			
55007	Ineligible depreciation	332,548	-	332,548
55008	Other ineligible expenses	16,281	-	16,281
55009	Ineligible percent of association dues	1,163	-	1,163
55010	Other ineligible expense associated with auxiliary and nontransportation revenue	1,358	-	1,358
58020	Ineligible fringe benefits	147,953	-	147,953
<b>Total ineligible expenses</b>				<b>499,303</b>
<b>Total eligible expenses</b>				<b>\$ 4,289,643</b>

**BATTLE CREEK TRANSIT SYSTEM**

Unaudited

**Urban (Less than 100,000) Regular Service Nonfinancial Report**

Schedule 4N

For the Year Ended September 30, 2021

Public Service					
Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	33,582	2,964	-	36,546
611	Vehicle Miles	461,832	43,690	-	505,522

The methodology used for compiling vehicle hours and mileage has been reviewed and found to be adequate and reliable.

Note: This Schedule is considered unaudited as there were no procedures performed on nonfinancial data.

## BATTLE CREEK TRANSIT SYSTEM

### New Freedom Regular Service Revenue Report

Schedule 4R

For the Year Ended September 30, 2021

Code	Description	Amount
<b>401</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 13,889
<b>407</b>	<b>Non Trans Revenues</b>	
40799	Other Non Trans Revenue	78
<b>409</b>	<b>Local Revenue</b>	
40910	Local Operating Assistance	118,418
<b>413</b>	<b>Federal Contracts</b>	
41399	Other Federal Transit Contracts and Reimbursements	<u>118,418</u>
<b>Total revenues</b>		<u><u>\$ 250,803</u></u>

## BATTLE CREEK TRANSIT SYSTEM

### New Freedom Regular Service Expense Report

Schedule 4E

For the Year Ended September 30, 2021

Code	Description	Line-Haul	Demand-Response	Total
<b>501</b>	<b>Labor</b>			
50101	Operators' salaries & wages	\$ -	\$ 77,996	\$ 77,996
50102	Other salaries & wages	-	34,304	34,304
50103	Dispatchers' salaries & wages	-	11,150	11,150
<b>502</b>	<b>Fringe benefits</b>			
50200	Other fringe benefits	-	47,084	47,084
50220	Defined Benefit (DB) Pensions	-	25,290	25,290
<b>503</b>	<b>Services</b>			
50302	Advertising fees	-	11	11
50305	Audit cost	-	933	933
50399	Other services	-	15,783	15,783
<b>504</b>	<b>Materials and supplies</b>			
50401	Fuel & lubricants	-	17,292	17,292
50402	Tires & tubes	-	2,132	2,132
50499	Other materials & supplies	-	10,719	10,719
<b>505</b>	<b>Utilities</b>			
50500	Utilities	-	3,409	3,409
<b>506</b>	<b>Insurance</b>			
50603	Liability insurance	-	593	593
50699	Other insurance	-	3,719	3,719
<b>509</b>	<b>Misc expenses</b>			
50700	Taxes and fees	-	11	11
50902	Travel, meetings & training	-	141	141
50903	Association dues & subscriptions	-	587	587
<b>512</b>	<b>Operating leases &amp; rentals</b>			
51200	Operating leases & rentals	-	667	667
<b>513</b>	<b>Depreciation</b>			
51300	Depreciation	-	15,088	15,088
<b>Total expenses</b>				266,909
<b>550</b>	<b>Ineligible expenses</b>			
55000	Ineligible JARC and NF Fares	-	13,889	13,889
55007	Ineligible depreciation	-	15,088	15,088
55008	Other ineligible expenses	-	952	952
55009	Ineligible percent of association dues	-	67	67
55010	Other ineligible expense associated with auxiliary and nontransportation revenue	-	78	78
<b>Total ineligible expenses</b>				30,074
<b>Total eligible expenses</b>				\$ 236,835

**New Freedom Regular Service Nonfinancial Report**

Schedule 4N

For the Year Ended September 30, 2021

**Public Service**

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	2,505	-	-	2,505
611	Vehicle Miles	29,932	-	-	29,932

The methodology used for compiling vehicle hours and mileage has been reviewed and found to be adequate and reliable.

Note: This Schedule is considered unaudited as there were no procedures performed on nonfinancial data.



## BATTLE CREEK TRANSIT SYSTEM

### Operating Assistance Calculation

Schedule 5

For the Year Ended September 30, 2021

	Urban less than 100,000
<b>Total expenses</b>	<u>\$ 4,788,946</u>
<b>Less ineligible expenses</b>	
Depreciation on capital assets acquired with federal and state grants	332,548
Other ineligible expenses	16,281
Michigan Public Transit Association dues	595
American Public Transit Association dues	568
Other ineligible expense associated with auxiliary and nontransportation revenue	1,358
Ineligible fringe benefits	<u>147,953</u>
<b>Total ineligible expenses per R &amp; E Manual</b>	<u>499,303</u>
<b>Total eligible expenses</b>	<u><u>\$ 4,289,643</u></u>
<b>Eligible expenses for state reimbursement</b>	<u>\$ 4,289,643</u>
x Reimbursement percentage	<u>42.0118%</u>
State operating assistance - calculated	<u><u>\$ 1,802,156</u></u>
<b>State operating assistance - actual</b>	<u><u>\$ 1,415,726</u></u>

**This page intentionally left blank.**

**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***

December 22, 2022

To the Honorable Mayor and  
Members of the City Commission  
City of Battle Creek, 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 **Battle Creek Transit System** (the "System"), an enterprise fund of the City of Battle Creek, Michigan, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 22, 2022.

#### **Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 or significant deficiencies may exist that have not been identified.



## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.