



**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009**

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

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November 1, 2010

Honorable Mayor and City Council
Harbor Transit Advisory Board

It is with great pleasure that we present the City of Grand Haven, Harbor Transit Annual Financial Report for the fiscal year ended June 30, 2010.

The City of Grand Haven, as sole owner of Harbor Transit, prepares this report in conjunction with the City's annual financial report. For many years, the City has prepared this separate report to share with other local governmental partners in transportation services. City Administration holds full responsibility for the completeness and accuracy of all statements, schedules, notes and analysis herein. To provide a reasonable basis for making these representations, City Administration maintains a system of internal controls to protect Harbor Transit assets from theft, loss or misuse and to compile reliable information for the presentation of the financial statements in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefit received; therefore the internal controls have been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatement. As City Administration, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Reporting Entity

Harbor Transit transportation services began in June 1975 when the City's first "dial-a ride" bus system was established. In 1978, the City of Ferrysburg and the Village of Spring Lake entered into a contractual agreement to provide bus transportation services throughout the area and to share local government costs through a specifically defined formula. The Township of Spring Lake contracted for a small adjacent area of service in 2004. In 2007, additional expansion of service into the Charter Township of Grand Haven occurred. Additional annual contracts with various public and private agencies have provided specialized services for their constituencies.

Normally, Harbor Transit services are provided on a demand-response basis. A call is placed to the Harbor Transit business office and a bus is dispatched to the pickup location. The customer boards the bus, pays the fare, rides to their destination (within the participating communities) and disembarks.

During the summer, Harbor Transit also supplies trolley service on a specified route within the City of Grand Haven to approximately 17,000 people. In past years, Harbor Transit also provided charter trolley service, however, that was assumed by the City Motorpool in 2007, per Federal Transportation Administration requirements, and was discontinued in the summer of 2010 as the trolleys became unusable.

The City of Grand Haven also provides contractual management and financial administration to the following organizations:

- Grand Haven/Spring Lake Sewer Authority, a separate governmental entity providing wastewater treatment services, and,
- Northwest Ottawa Water Treatment Plant, a joint venture of Northwest Ottawa County local units of government to provide potable water treatment supply, and

Ottawa County Central Dispatch Authority, a component unit of Ottawa County

The financial reports of these entities as well as the City of Grand Haven are reported elsewhere and are not included here.

Budgeting and Financial Planning

As part of the City's financial planning process, the City Council adopts an annual budget including a six year Capital Improvement Plan. These two documents address their strategy to provide transportation services within the local unit boundaries. The Harbor Transit budget is included within the overall City of Grand Haven annual budget document to provide comprehensive public presentation. It shows the financial framework for planning and control as well as defining Harbor Transit's role for the future. The Capital Improvement Plan provides a strategy for future major capital items and related financial resources that will be required over the next six years to implement City Council's vision.

The budget process normally begins in late fall with a goal-setting session. The Transportation Director, City Manager and Finance Director draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The City Council adopts the Harbor Transit budget in an omnibus resolution including all City Funds.

After the close of the fiscal year, the Financial Statements are prepared to report on the financial condition of Harbor Transit and the fiscal results of its operations. Included in the report are comparisons of actual revenues and expenditures for the audited year and the prior year. Also included are required supplementary reports which are required to meet State and federal requirements and generally accepted accounting principles.

Economic Condition and Outlook

Current state economic conditions continue to present employment challenges for displaced employees and the local economy as a whole. Economic forecasts indicate a continuation of challenging conditions for 2010 and beyond in Michigan, some estimates indicating at least a four year cycle until improvements occur. Keys to these forecasts are reductions in auto and furniture industry jobs and capital expenditures and a continuing retrenching in Michigan's manufacturing economy.

Harbor Transit receives significant support from direct federal funding through the Federal Transportation Administration, from direct State funding through the Michigan Department of Transportation, through farebox and contracted services and from contributions from the local participating units of government. The "average" cost of a ride is approximately \$11.26 with roughly \$2.36 provided through federal sources, \$4.05 provided by the State of Michigan, \$.90 provided by the rider and \$3.95 provided by the local units of government and contractual contracts.

Transportation millage used for Harbor Transit was approved by Grand Haven voters at a special election dated May 18, 1976 for 1.0000 mills, in perpetuity. The maximum millage available for transportation under the Headlee Amendment is 0.82420, however, during the fiscal year the City levied only 0.57000 mills, the same applied in the prior and next fiscal years. The City of Ferrysburg has had a millage for transportation services for many years and in 2008 the Village of Spring Lake approved by a 76% affirmative vote, a .9898 millage structure as well. (Previously, the Village provided funding from its General Fund.)

Harbor Transit notes a continuing request for services provided to the local municipalities. To this end, negotiations have ensued to consider transforming transportation services into a regional authority, benefits including increased federal support and a wider area where services may be provided. While property values have been significantly reduced and with a slowing rate of population increase in the surrounding townships and reduced potential for economic and industrial growth due to current local and national economic issues, Harbor Transit retains a positive outlook for the future.

Fiscal Year 2009-10 Initiatives

- MDOT 2007-0214 Z1 - Service Development & New Technology (SDNT): This grant provides \$90,000 to develop a Strategic Plan, and study multi-governmental funding mechanisms and formulas (nationwide) that support local financial commitment to transit systems. The study was completed by The Corradino Group and the two main objectives were completed: discussion of expansion into Grand Haven Charter Township ongoing and a funding formula to be implemented.
- Articles of Incorporation, By-Laws and Operating Agreements have been drafted for a new governance model that will be in place once the operational expansion takes place and Harbor Transit becomes a separate governmental authority.
- The purchase of (4) new ARBOC Mobility buses were delivered from Holland Bus Company for \$396,484.00. The buses were funded through grants MI-03-0230-00, MI-04-0015-00 and MI-04-0036-00 at a Federal (80%) and State (20%) levels (no local match required).
- MI-90-X623-00 – FY2010 Operating Assistance Grant: Appropriations of \$323,280 was awarded by the Federal Transportation Administration and funded at 100%.
- MI-95-X056-00 – CMAQ Congestion Mitigation and Air Quality Improvement Program Grant was awarded by FTA and funded at \$51,600.00. We will be purchased bike racks for all our buses and have \$35,600.00 for an Outreach and Marketing Plan to be used when the service expansion occurs.
- MI-90-X451-00 – This grant funded 80% of the purchase of a multi-functional color network printer and replacement of two way radios for buses that will make us compliant with 2013 FAA Narrow Band requirements.
- Transportation agreements with four private entities were renewed in Spring Lake Township at an annualized revenue of \$13,049 and with two private entity in Grand Haven Charter Township at an annualized revenue of \$14,496.

Future Initiative

- Ongoing negotiations with adjacent local governments consider a transportation authority structure to further support funding and expand transportation services throughout the area.

Reporting Model Format

The objective of the Financial Statements of Harbor Transit under GASB Statement 34 is to highlight the accountability of the City of Grand Haven by providing useful information to a wide range of users. A few of the more significant reporting requirements include:

- This transmittal letter and the "Management's Discussion and Analysis" (MD&A) provide an in-depth review and discussion of the Harbor Transit financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many key financial topics are covered by the MD&A which can be found immediately after the auditor's opinion letter.
- Consistent with the appropriate accounting basis for enterprise funds, Harbor Transit statements are presented on a full accrual basis of accounting. The full accrual method addresses overall operating results and the financial position of the Harbor Transit as an economic entity, as is done in the private sector.
- Harbor Transit has only one operating fund, a proprietary fund.

The Harbor Transit report is significantly less complex than other municipal reports due to the single fund included in the report and the proprietary fund format. This report is presented to the local partner governments rather than providing the City's whole annual financial report. Further, Harbor Transit and/or the City of Grand Haven is occasionally required to have a "single audit." This smaller report defines the required information in a focused manner.

Independent Audit

State statutes and the City Charter require an annual financial audit by an independent certified public accounting firm. In March 2009, City Council selected the accounting firm of Rehmann Robson, Certified Public Accountants, to provide auditing services for five annual financial reports. This report is the second of five under that structure.

Acknowledgments

The work of preparing the financial report has required the help and assistance of many people. The staff of the City of Grand Haven Finance and City Treasurer Departments in particular spent many hours working on this project. Katrina Robinson, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work. Likewise, appreciation is offered to Transportation Director Tom Manderscheid and Operations Manager Sue Thomae for their considerable assistance.

Sincerely,

Patrick McGinnis
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616 847-4888
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James P. Bonamy
Finance Director
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INDEPENDENT AUDITORS' REPORT

November 10, 2010

To the Honorable Mayor and
Members of the City Council
City of Grand Haven, Michigan

We have audited the financial statements of the *City of Grand Haven, Michigan Harbor Transit* (an Enterprise Fund of the City of Grand Haven, Michigan) as of and for the years ended June 30, 2010 and 2009 and have issued our reports thereon dated November 10, 2010 and November 9, 2009, respectively. These financial statements are the responsibility of the City of Grand Haven, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Grand Haven, Michigan Harbor Transit Enterprise Fund and do not purport to, and do not present fairly the financial position of the City of Grand Haven, Michigan, as of June 30, 2010 and 2009 and the changes in its financial position and cash flows where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Haven, Michigan Harbor Transit as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 7 through 11 is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements of the City of Grand Haven, Michigan Harbor Transit taken as a whole. The accompanying supplementary information is presented for the purpose of additional analysis and is not a required part of the financial statements. This information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The letter of transmittal has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Lehmann Johnson".

**City of Grand Haven, Michigan Harbor Transit
Management's Discussion and Analysis
June 30, 2010 and 2009**

1) Financial Highlights

- a) Through its Harbor Transit Fund, the City of Grand Haven owns and operates a demand-response bus transportation system within the City and serving the following Northwest Ottawa communities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake.

Harbor Transit ended the fiscal year in fair financial position.

- b) Business-type activities net assets increased to \$1,055,910 from \$660,846 primarily due to federal capital grants for bus purchases.
- c) Total operating expenses for business-type activities increased to \$1,628,689 from \$1,516,353 primarily in contractual services funded by grants and increased depreciation.

2) Overview of Financial Statements

a) Overall financial picture

The financial statements provide the Harbor Transit financial position using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

i) Statements of Net Assets

The *Statements of Net Assets* provide information on assets, liabilities and the difference between assets and liabilities, which is called net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statements of Net Assets* are similar to a balance sheet in private sector accounting.

ii) Statements of Revenues, Expenses and Changes in Net Assets

The *Statements of Revenues, Expenses and Changes in Net Assets* report the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs and includes depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the *Statements of Net Assets*.

b) Notes to the Financial Statements

Immediately after the financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of Harbor Transit.

3) Financial Analysis

a) Net Assets

The *Statements of Net Assets* provides an overview of Harbor Transit assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of fiscal health. A comparative analysis between the current report year and the prior year is herein presented.

On the next page is a summarized version of the *Statements of Net Assets*.

**City of Grand Haven, Michigan Harbor Transit
Management's Discussion and Analysis
June 30, 2010 and 2009**

Net Assets

June 30,	2010	2009
Assets		
Current and other assets	\$ 370,857	\$ 357,683
Capital assets, net	957,896	658,374
Total Assets	1,328,753	1,016,057
Liabilities		
Current liabilities	173,546	245,145
Other liabilities	99,297	110,066
Total Liabilities	272,843	355,211
Net Assets		
Invested in capital assets, net of related debt	957,896	658,374
Unrestricted	98,014	2,742
Total Net Assets	\$1,055,910	\$ 660,846

The total assets of Harbor Transit are \$1,328,753 however, \$957,896 represents net investment in capital assets, primarily in vehicles and the Harbor Transit building. There are no restricted assets. Total net assets increased by \$395,064 during the fiscal year, primarily through federal capital grants for purchase of new buses.

b) Changes in Net Assets

Significant changes in net assets are shown in the table on the next page.

**City of Grand Haven, Michigan Harbor Transit
Management's Discussion and Analysis
June 30, 2010 and 2009**

Changes in Net Assets

Year ended June 30,	2010	2009
Revenue		
Operating Revenue – Local		
Farebox – demand response	\$103,762	\$89,506
Farebox - trolley	16,424	17,505
Contractual services	32,536	27,759
Other	29,587	14,835
Total Operating Revenue	182,309	149,605
Operating Expenses		
Labor	785,011	768,314
Fringe benefits	263,757	273,778
Professional/contractual services	233,621	143,235
Fuel and supplies	154,832	170,000
Utilities	29,805	29,823
Casualty and liability costs	15,605	15,075
Depreciation	133,524	73,578
Other	12,534	42,550
Total Operating Expenses	1,628,689	1,516,353
Operating Loss	(1,446,380)	(1,366,748)
Non-Operating Revenue (Expense)		
Local operating grants	446,571	399,260
State operating grants	540,572	559,615
Federal operating grants	323,560	317,941
Gain on sale of capital assets	17,953	-
Interest expense	(558)	-
Total Non-Operating Revenue (Expense)	1,328,098	1,276,816
Loss before Transfers and Contributions	(118,282)	(89,932)
Transfers in from the City of Grand Haven	5,370	5,370
Capital contributions		
State capital grants	99,378	23,208
Federal capital grants	408,648	1,953
Total Transfers and Contributions	531,346	30,531
Changes in Net Assets	395,064	(59,401)
Net Assets, beginning of year	660,846	720,247
Net Assets, end of year	\$1,055,910	\$660,846

**City of Grand Haven, Michigan Harbor Transit
Management's Discussion and Analysis
June 30, 2010 and 2009**

c) Business-type Activities – Highlights

The business-type activities had an increase in net assets of \$395,064 from revenues of \$2,042,311. The largest sources of revenue were from state, local and federal grants, totaling \$1,818,729 and providing a combined 89.05% of revenue from business-type activities.

4) Financial Analysis

Harbor Transit had revenues of \$2,024,311, an increase of \$567,359 over the prior fiscal year. Revenue is primarily generated from Federal funding (based on population and 36.17% of total revenue), State Department of Transportation funding (based on eligible expenditures and 31.61%), farebox revenue (direct from riders and 5.94%) and revenue from local communities served (22.06%).

5) Capital Assets and Debt Administration

a) Capital assets

Harbor Transit has \$957,896 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life greater than one year. Capital assets includes: land, land improvements, buildings, vehicles and equipment. Harbor Transit uses straight line depreciation for all depreciable assets. In FY2009, capital assets increased by \$299,522 in business-type activities, primarily in the acquisition of new buses, net of depreciation. Note that most capital assets were funded by state and federal grants for vehicle purchases.

b) More detailed information about changes in capital assets can be found in Note 3 of the footnotes.

6) Debt

a) Summary of debt

Harbor Transit had no long term debt outstanding as of June 30, 2010.

7) Economic Forecast

Harbor Transit has four main sources of revenue, Federal and State grants for transportation services, passenger fares and local government support. Ridership is affected by the overall economy and can cause significant swings of revenue from ridership habits and changes in weather conditions. Summer operations provide the greatest revenue, however Harbor Transit is seeing a significant shift in needed services to school children, disabled and senior citizens.

Funding from Federal sources is based on population. Funding from State sources is based on a percentage of total eligible expenses which has been reduced over time. State law allows up to a 50% reimbursement of eligible expenses annually. Recent years have seen reimbursement percentages of less than 40%. These reductions cause a direct increase in local government costs to support Transit operations.

For the FY2010-11 budget, Harbor Transit anticipates that ridership will be roughly equal to FY2009-10 amounts.

**City of Grand Haven, Michigan Harbor Transit
Management's Discussion and Analysis
June 30, 2010 and 2009**

8) Contacting the Harbor Transit Financial Management Staff

The City of Grand Haven owns and operates the demand-response system and therefore provides fiscal and administrative services for Harbor Transit. This financial report is designed to provide interested individuals including citizens, taxpayers, customers, investors and creditors, with a general overview of Harbor Transit finances and to show the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact us at 519 Washington Avenue, Grand Haven, MI 49417, or call or e-mail us as noted below:

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City Manager

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James P. Bonamy

Finance Director

616 847-4893

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**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

STATEMENTS OF NET ASSETS

	June 30	
	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 450	\$ 450
Accounts receivable	26,977	57
Due from other governmental units:		
Local	39,582	59,805
State	22,348	18,688
Federal	251,718	245,251
Inventories	26,598	31,475
Prepaid items	3,184	1,957
Total current assets	370,857	357,683
Noncurrent assets		
Capital assets not being depreciated	9,261	9,261
Capital assets being depreciated, net	948,635	649,113
Total noncurrent assets	957,896	658,374
Total assets	1,328,753	1,016,057
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	22,379	15,224
Accrued and other liabilities	37,057	30,339
Due to other funds of the City of Grand Haven	114,110	199,582
Total current liabilities	173,546	245,145
Noncurrent liabilities		
Compensated absences	99,297	88,152
Net other postemployment benefits obligation	-	21,914
Total noncurrent liabilities	99,297	110,066
Total liabilities	272,843	355,211
Net assets		
Invested in capital assets	957,896	658,374
Unrestricted	98,014	2,472
Total net assets	\$ 1,055,910	\$ 660,846

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

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2010	2009
Operating revenue		
Demand-response (farebox)	\$ 103,762	\$ 89,506
Trolley (farebox)	16,424	17,505
Contractual services	32,536	27,759
Other	29,587	14,835
Total operating revenue	182,309	149,605
Operating expenses		
Labor	785,011	768,314
Fringe benefits	263,757	273,778
Professional and contractual services	233,621	143,235
Fuel and supplies	154,832	170,000
Utilities	29,805	29,823
Casualty and liability costs	15,605	15,075
Depreciation	133,524	73,578
Other	12,534	42,550
Total operating expenses	1,628,689	1,516,353
Operating loss	(1,446,380)	(1,366,748)
Nonoperating revenue (expense)		
Local operating grants	446,571	399,260
State operating grants	540,572	559,615
Federal operating grants	323,560	317,941
Gain on sale of capital assets	17,953	-
Interest expense	(558)	-
Total nonoperating revenue (expense)	1,328,098	1,276,816
Change in net assets before transfers and contributions	(118,282)	(89,932)
Transfers in from the City of Grand Haven	5,370	5,370
Capital contributions:		
State capital grants	99,328	23,208
Federal capital grants	408,648	1,953
Total transfers and contributions	513,346	30,531
Changes in net assets	395,064	(59,401)
Net assets, beginning of year	660,846	720,247
Net assets, end of year	\$ 1,055,910	\$ 660,846

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

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2010	2009
Cash flows from operating activities		
Receipts from customers and users	\$ 155,389	\$ 167,618
Payments to suppliers	(521,064)	(521,037)
Payments to employees	(1,052,819)	(989,582)
Net cash used in operating activities	(1,418,494)	(1,343,001)
Cash flows from noncapital financing activities		
Proceeds from local operating grants	466,794	462,410
Proceeds from state operating grants	533,929	579,099
Proceeds from federal operating grants	315,140	298,369
Transfers in from other funds of the City of Grand Haven	5,370	5,370
Net cash provided by noncapital financing activities	1,321,233	1,345,248
Cash flows from capital and related financing activities		
Purchase of capital assets	(433,046)	(22,472)
Proceeds from sale of capital assets	17,953	-
Proceeds from state and federal capital grants	512,912	20,225
Interest paid	(558)	-
Net cash provided by (used in) capital and related financing activities	97,261	(2,247)
Increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	450	450
Cash and cash equivalents, end of year	\$ 450	\$ 450

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

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2010	2009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,446,380)	\$ (1,366,748)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	133,524	73,578
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(26,920)	18,013
Inventories	4,877	8,463
Prepaid items	(1,227)	(1,223)
Accounts payable	7,155	(30,571)
Accrued and other liabilities	17,863	30,596
Due to other funds of the City of Grand Haven	(85,472)	(97,023)
Net other postemployment benefits obligation	(21,914)	21,914
Net cash used in operating activities	\$ (1,418,494)	\$ (1,343,001)

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

CITY OF GRAND HAVEN, MICHIGAN HARBOR TRANSIT

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The *City of Grand Haven, Michigan Harbor Transit* ("Harbor Transit") is an Enterprise Fund of the City of Grand Haven, Michigan. It operates under direction of the City Charter. Harbor Transit provides public transportation services to users in the City of Grand Haven and portions of the surrounding area. The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The operations of Harbor Transit are accounted for in a single enterprise fund (a proprietary fund type). Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Harbor Transit are charges to customers for sales and services. Operating expenses 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 Harbor Transit's policy to use restricted resources first, then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board*. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Harbor Transit has elected not to follow subsequent private-sector guidance.

Cash Equivalents

For purposes of the statement of cash flows, the Harbor Transit considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Inventories

Inventories consist of materials and supplies and are stated at the lower of cost or market.

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

NOTES TO FINANCIAL STATEMENTS

Capital Assets and Depreciation

Capital assets are stated at cost or fair market value at the date of purchase/gift. Costs relating to maintenance and repairs are charged to expense, whereas those costs for renewals and betterments in excess of \$1,000 are capitalized. Depreciation on all assets is provided on the straight line basis over the estimated useful lives as defined in the Local Public Transit Revenue and Expense Manual (R&E Manual), and/or as approved by the Bureau of Passenger Transportation (BPT).

Eligible depreciation includes only the depreciation of assets purchased with local funds where the useful life of the asset purchased has been approved by the BPT. Harbor Transit had no eligible depreciation expense during the years ended June 30, 2010 and 2009. For the year ended June 30, 2010 and 2009, the ineligible depreciation amounts of \$133,524 and \$73,578, respectively, include \$2,624 and \$3,899, respectively, of depreciation associated with assets purchased with local money where the useful life of the asset was not approved by the BPT.

2. DUE FROM FEDERAL GOVERNMENT

Harbor Transit receives funding from the U.S. Department of Transportation under Section 5307 operating grants and Section 5304 and Section 5309 capital grants. The computation of the amount due from the federal government is as follows at June 30:

	2010	2009
Maximum reimbursement per contract under Section 5307	\$ 242,460	\$ 243,298
Section 5304 grant	3,677	1,953
Section 5309 grant	5,581	-
Due from federal government	\$ 251,718	\$ 245,251

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2010, are as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not being depreciated				
Land	\$ 9,261	\$ -	\$ -	\$ 9,261
Capital assets, being depreciated				
Building	1,093,906	20,479	-	1,114,385
Vehicles	1,655,579	396,484	421,394	1,630,669
Dispatch and office equipment	163,735	16,083	-	179,818
	<u>2,913,220</u>	<u>433,046</u>	<u>421,394</u>	<u>2,924,872</u>
Accumulated depreciation				
Building	617,341	31,527	-	648,868
Vehicles	1,529,408	91,191	421,394	1,199,205
Dispatch and office equipment	117,358	10,806	-	128,164
	<u>2,264,107</u>	<u>133,524</u>	<u>421,394</u>	<u>1,976,237</u>
Net capital assets, being depreciated	<u>649,113</u>	<u>299,522</u>	<u>-</u>	<u>948,635</u>
Total capital assets, net	<u>\$ 658,374</u>	<u>\$ 299,522</u>	<u>\$ -</u>	<u>\$ 957,896</u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

NOTES TO FINANCIAL STATEMENTS

Changes in capital assets for the year ended June 30, 2009, are as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets, not being depreciated				
Land	\$ 9,261	\$ -	\$ -	\$ 9,261
Capital assets, being depreciated				
Building	1,093,906	-	-	1,093,906
Vehicles	1,655,579	-	-	1,655,579
Dispatch and office equipment	141,263	22,472	-	163,735
	<u>2,890,748</u>	<u>22,472</u>	<u>-</u>	<u>2,913,220</u>
Accumulated depreciation				
Building	587,850	29,491	-	617,341
Vehicles	1,494,858	34,550	-	1,529,408
Dispatch and office equipment	107,821	9,537	-	117,358
	<u>2,190,529</u>	<u>73,578</u>	<u>-</u>	<u>2,264,107</u>
Net capital assets, being depreciated	<u>700,219</u>	<u>(51,106)</u>	<u>-</u>	<u>649,113</u>
Total capital assets, net	<u>\$ 709,480</u>	<u>\$ (51,106)</u>	<u>\$ -</u>	<u>\$ 658,374</u>

4. RISK MANAGEMENT

Harbor Transit is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which Harbor Transit carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

5. COST ALLOCATION PLANS

Harbor Transit has six cost allocation plans where the methodology has been approved by the BPT. Those cost allocations are for Central Garage and City Hall Rent, Charter, Trolley, Gasoline Charges, Parking for Agency Vehicles, and Administrative Costs. These cost allocation plans were adhered to in the preparation of the financial statements.

CITY OF GRAND HAVEN, MICHIGAN HARBOR TRANSIT

NOTES TO FINANCIAL STATEMENTS

6. NET OTHER POSTEMPLOYMENT BENEFITS OBLIGATION

Harbor Transit participates in the single-employer defined benefit healthcare plan of the City of Grand Haven, Michigan. For a full description of the plan, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress, actuarial methods and assumptions and Required Supplementary Information, see the City of Grand Haven, Michigan financial statements.

7. INELIGIBLE EXPENSES

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Any ineligible expenses have been properly reported and subtracted out as ineligible.

No capital money (Section 5309) was used for operating expenditures during the fiscal years ending June 30, 2010 and 2009.

8. NONFINANCIAL DATA

The methodology used for compiling mileage on OAR Schedule 4N is an adequate and reliable method for recording vehicle mileage.

9. 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 transit agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the transit agency expects such amounts, if any, to be immaterial.

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

NOTES TO FINANCIAL STATEMENTS

10. LOCAL GRANTS

In fiscal year 2007-08, the City of Grand Haven and the local governments served by Harbor Transit began grant-funded, detailed discussions on future funding of demand-response services. Included was a determination of the formula which will calculate the local shares owed by each unit for these services. Likewise, these discussions included scenarios on reimbursing the City's prior period overpayments into the Harbor Transit Fund.

To meet fiscal needs of Harbor Transit, using the "fair share formula" structure, the City General Fund incurred expenses of \$276,839 and \$253,760 as the City's annual formula payments, plus \$11,348 and \$13,225 for trolley services provided in the City alone during the years ended June 30, 2010 and 2009, respectively. Formula amounts for the Village of Spring Lake were \$62,414 and \$50,291, and formula amounts for the City of Ferrysburg were \$86,875 and \$71,641 for the years ended June 30, 2010 and 2009, respectively. In addition, a business located in the Township of Grand Haven contributed \$9,095 and \$10,343 during the years ended June 30, 2010 and 2009, respectively. The Cities of Grand Haven and Ferrysburg and the Village of Spring Lake fund this obligation through millage.

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**SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010**

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

SCHEDULE 1 - LOCAL REVENUES

	July 1, 2009 to September 30, 2009	October 1, 2009 to June 30, 2010	Total
Operating revenue:			
Demand-response (farebox)	\$ 27,220	\$ 76,542	\$ 103,762
Trolley (farebox)	12,188	4,236	16,424
Contractual services	18,122	14,414	32,536
Other	35,883	(6,296)	29,587
Total operating revenue	93,413	88,896	182,309
Nonoperating revenue:			
Local operating grants	-	446,571	446,571
Total local revenues	\$ 93,413	\$ 535,467	\$ 628,880

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 1A - LOCAL REVENUES BASED ON A
SEPTEMBER 30, 2009 YEAR END**

	October 1, 2008 to June 30, 2009	July 1, 2009 to September 30, 2009	Total
Operating revenue:			
Demand-response (farebox)	\$ 54,451	\$ 27,220	\$ 81,671
Trolley (farebox)	17,505	12,188	29,693
Contractual services	9,245	18,122	27,367
Interest	5,504	-	5,504
Other	14,831	35,883	50,714
Total operating revenue	101,536	93,413	194,949
Nonoperating revenue:			
Local operating grants	388,945	-	388,945
Total local revenues	\$ 490,481	\$ 93,413	\$ 583,894

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 2 - EXPENDITURES OF FEDERAL AND STATE AWARDS -
YEAR ENDED JUNE 30, 2010**

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency or Pass-Through Number	Approved Grant Award Amount
<u>U.S. Department of Transportation</u>			
Federal Transit Operating Grant			
Direct programs:			
Section 5307 prior year	20.507	MI-90-X602-00	\$ 324,398
Section 5307 current year	20.507	MI-90-X623-00	323,280
Federal Transit Capital Grant			
Direct programs:			
Section 5309 (80/20)	20.500	2002-0040/Z14	194,356
Section 5309 (80/20)	20.500	2002-0040/Z15	399,960
Section 5309 (80/20)	20.500	2007-0214/Z2	245,000
Section 5309 (80/20)	20.500	2007-0214/Z3	152,000
Section 5309 (80/20)	20.500	2002-0040/Z13	2,735,603
Passed through the Michigan Department of Transportation:			
Section 5304 (80/20)	20.515	2007-0214/Z1	90,000
<u>Michigan Department of Transportation</u>			
Operating Assistance - Act 51			
Urban	N/A	N/A	519,143
Totals			

Current Year Expenditures			Prior Year's Expenditures	Award Amount Remaining
Total	Federal	State		
\$ 81,100	\$ 81,100	\$ -	\$ 243,298	\$ -
<u>242,460</u>	<u>242,460</u>	<u>-</u>	<u>-</u>	<u>80,820</u>
323,560	323,560	-	243,298	80,820
100,575	80,460	20,115	-	136,771
204,486	160,920	43,566	-	295,444
100,575	80,460	20,115	-	205,675
13,424	13,424	-	-	172,826
11,337	11,337	-	-	5,581
<u>77,579</u>	<u>62,047</u>	<u>15,532</u>	<u>2,441</u>	<u>10,920</u>
507,976	408,648	99,328	2,441	827,217
<u>540,572</u>	<u>-</u>	<u>540,572</u>	<u>-</u>	<u>-</u>
<u>\$ 1,372,108</u>	<u>\$ 732,208</u>	<u>\$ 639,900</u>	<u>\$ 245,739</u>	<u>\$ 908,037</u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 2A - FEDERAL AND STATE AWARDS -
OPERATING REVENUE ONLY**

	<u>July 1, 2009 to September 30, 2009</u>	<u>October 1, 2009 to June 30, 2010</u>	<u>Total</u>
Michigan Department of Transportation Local Bus Operating (Act 51)	\$ 141,511	\$ 399,061	\$ 540,572
Federal Transit Administration Section 5307	<u>81,100</u>	<u>242,460</u>	<u>323,560</u>
Total	<u>\$ 222,611</u>	<u>\$ 641,521</u>	<u>\$ 864,132</u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 2B - FEDERAL AND STATE AWARDS - OPERATING
REVENUE ONLY BASED ON A SEPTEMBER 30, 2009 YEAR END**

	October 1, 2008 to June 30, 2009	July 1, 2009 to September 30, 2009	Total
	<u> </u>	<u> </u>	<u> </u>
Michigan Department of Transportation			
Local Bus Operating (Act 51)	\$ 388,820	\$ 141,511	\$ 530,331
Federal Transit Administration			
Section 5307	<u> 243,298</u>	<u> 81,100</u>	<u> 324,398</u>
Total	<u> \$ 632,118</u>	<u> \$ 222,611</u>	<u> \$ 854,729</u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 3 - OPERATING AND CONTRACT EXPENSES
YEAR ENDED JUNE 30, 2010**

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Operating Contract</u>	<u>Total</u>
Labor	\$ 785,011	\$ -	\$ -	\$ -	\$ 785,011
Fringe benefits	263,757	-	-	-	263,757
Professional and contractual services	233,621	-	-	-	233,621
Fuel and supplies	154,832	-	-	-	154,832
Utilities	29,805	-	-	-	29,805
Casualty and liability costs	15,605	-	-	-	15,605
Depreciation	133,524	-	-	-	133,524
Other	12,534	-	-	-	12,534
Total	<u>\$ 1,628,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,628,689</u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 3A - OPERATING EXPENSES SPLIT BETWEEN A
JUNE 30 AND SEPTEMBER 30 YEAR END**

	Urban		Total
	July 1, 2009 to September 30, 2009	October 1, 2009 to June 30, 2010	
Labor	\$ 172,500	\$ 612,511	\$ 785,011
Fringe benefits	78,604	185,153	263,757
Professional and contractual services	55,603	178,018	233,621
Fuel and supplies	36,983	117,849	154,832
Utilities	5,590	24,215	29,805
Casualty and liability costs	7,620	7,985	15,605
Depreciation	-	133,524	133,524
Other	3,880	8,654	12,534
Total	\$ 360,780	\$ 1,267,909	\$ 1,628,689

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 3B - OPERATING EXPENSES BY PROGRAM
BASED ON A SEPTEMBER 30, 2009 YEAR END**

	Urban		Total
	October 1, 2008 to June 30, 2009	July 1, 2009 to September 30, 2009	
Labor	\$ 588,505	\$ 172,500	\$ 761,005
Fringe benefits	203,287	78,604	281,891
Professional and contractual services	136,665	55,603	192,268
Fuel and supplies	129,292	36,983	166,275
Utilities	25,386	5,590	30,976
Casualty and liability costs	7,457	7,620	15,077
Depreciation	73,578	-	73,578
Other	15,661	3,880	19,541
Total	\$ 1,179,831	\$ 360,780	\$ 1,540,611

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**OAR SCHEDULE 4R - URGAN REGULAR SERVICE REVENUE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Code	Description	Amount
401:	Farebox Revenue	
40100	Passenger Fares	\$ 111,364
40200	Contract Fares	27,367
407:	NonTrans Revenues	
40760	Gain on Sale of Capital Assets	16,250
40799	Other NonTrans Revenues	34,464
409:	Local Revenue	
40910	Local Operating Assistance	388,945
411:	State Formula and Contracts	
41101	State Operating Assistance	530,331
413:	Federal Contracts	
41302	Section 5307 (Operating Funds)	243,298
414:	Other Revenue	
41400	Interest Income	5,504
Total Revenues		<u><u>\$ 1,357,523</u></u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**OAD SCHEDULE 4E - URBAN REGULAR SERVICE EXPENSE REPORT -
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

<u>Code</u>	<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>General Admin.</u>	<u>Total</u>
501:	Labor				
50101	Operators' Salaries & Wages	\$ 489,810	\$ 38,920	\$ -	\$ 528,730
50102	Other Salaries & Wages	-	-	67,040	67,040
50103	Dispatchers' Salaries & Wages	165,235	-	-	165,235
502:	Fringe Benefits				
50200	Other Fringe Benefits	211,375	10,208	41,529	263,112
50201	Pensions	17,205	-	1,574	18,779
503:	Services				
50302	Advertising Fees	14,375	-	-	14,375
50399	Other Services	6,207	59,126	112,560	177,893
504:	Material and Supplies				
50401	Fuel & Lubricants	82,837	-	-	82,837
50402	Tires & Tubes	-	12,777	-	12,777
50499	Other Materials & Supplies	8,577	61,865	219	70,661
505:	Utilities				
50500	Utilities	23,968	-	7,008	30,976
506:	Insurance				
50603	Liability Insurance	15,077	-	-	15,077
509:	Misc. Expenses				
50902	Travel, Meetings & Training	476	-	5,190	5,666
50903	Association Dues & Subscriptions	-	-	3,471	3,471
50999	Other Miscellaneous	9,782	-	518	10,300
550:	Ineligible Expenses				
55007	Ineligible Depreciation	73,578	-	-	73,578
55009	Ineligible Association Dues	-	-	104	104
Total Expenses					1,540,611
Total Ineligible Expenses					73,682
Total Eligible Expenses					<u><u>\$ 1,466,929</u></u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**OAR SCHEDULE 4N - URBAN REGULAR SERVICE NON-FINANCIAL REPORT -
FOR THE YEAR ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

Public Service					
Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	17,626	1,146	458	19,230
611	Vehicle Miles	229,024	14,904	4,005	247,933

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

**SCHEDULE 5 - OPERATING ASSISTANCE CALCULATION -
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>Urban</u>
Total expenses	\$ 1,540,611
Less ineligible expenses	
Depreciation	73,578
Association dues	104
Total state eligible expenses	<u><u>\$ 1,466,929</u></u>
Eligible expenses for state reimbursement	\$ 1,466,929
Reimbursement percentage	<u>36.9842%</u>
State operating assistance before reconciliation	\$ 542,532
Less prior year reconciliation payments	<u>12,201</u>
State operating assistance	<u><u>\$ 530,331</u></u>

**CITY OF GRAND HAVEN, MICHIGAN
HARBOR TRANSIT**

SCHEDULE 6 - COMMENTS AND RECOMMENDATIONS

Statutory Compliance

Our review of procedures for compliance with statutory requirements did not disclose any exceptions.

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