

**Beaver Island
Emergency Services Authority**

BASIC FINANCIAL STATEMENTS

March 31, 2018

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Beaver Island Emergency Services Authority
St James, Michigan, 49782

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity and major funds of the Beaver Island Emergency Services Authority as of and for the year ended March 31, 2018, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and major funds of the Beaver Island Emergency Services Authority, as of March 31, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018 on our consideration of the Beaver Island Emergency Services Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Beaver Island Emergency Services Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Beaver Island Emergency Services Authority's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

February 4, 2019

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

The Authority as a Whole

The Authority's is in its first year of operation as an independent authority, prior to this year the authority was two separate funds of St. James Township the Fire fund, and one of Peaine Township the EMS fund. In a condensed format, the table below shows a comparison of the net position as of the current date to the prior year:

	<u>2018</u>	<u>2017</u>
Assets:		
Current Assets	\$ 622,480	\$ -
Capital Assets	<u>239,595</u>	<u>-</u>
Total Assets	<u>862,075</u>	<u>-</u>
Current Liabilities	<u>18,447</u>	<u>-</u>
Net Position:		
Net Investment in Capital Assets	239,595	-
Unrestricted	<u>604,033</u>	<u>-</u>
Total Net Position	<u>\$ 843,628</u>	<u>\$ -</u>

The current level of unrestricted net position for our business-type activity stands at \$604,033, or about 280% of expenses. This is within the targeted range set by the Authority's Board of Directors during its last budget process.

The following table shows the activities of the Authority.

	<u>2018</u>	<u>2017</u>
Revenues		
Charges for Services	\$ 128,279	\$ -
Local Contributions	913,946	-
Interest Earnings	138	-
Miscellaneous	<u>16,718</u>	<u>-</u>
Total Revenues	<u>1,059,081</u>	<u>-</u>
Expenses		
Fire	61,944	-
EMS	125,504	-
Depreciation Expense	20,853	-
Miscellaneous	<u>7,152</u>	<u>-</u>
Total Expenses	<u>215,453</u>	<u>-</u>
Change in Net Position	843,628	-
Net Position, Beginning of Year	<u>-</u>	<u>-</u>
Net Position, End of Year	<u>\$ 843,628</u>	<u>\$ -</u>

Business-Type Activity

The Authority's total business-type revenues consist of Operating grants that are received from both of the local townships and charges for services rendered, and the contribution from each township which consisted of both cash balances as well as capital assets.

Expenses are related to operations of fire and EMS services for Beaver Island as well as administrative services related to activities.

Capital Asset and Debt Administration

At the end of 2018, the Authority had \$239,595 invested in a broad range of capital assets, including buildings and improvements, vehicles, and equipment.

The Authority had no long-term debt obligations at year end.

Economic Factors and Next Year's Budgets and Rates

The FY 2019 budget was projected comparable to the FY 2018 budget. The Emergency Service will continue to operate with a slow growth operational mindset to ensure the economic problems within our state and federal funding do not have an impact on the services we are currently providing.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Authority at P.O. Box 192, Beaver Island, MI, 49782-0192.

Basic Financial Statements

	Totals
ASSETS:	
Cash and Equivalents - Unrestricted	\$ 537,274
Accounts Receivable	85,206
Capital Assets (Net of Accumulated Depreciation)	<u>239,595</u>
 TOTAL ASSETS	 <u>862,075</u>
LIABILITIES:	
Accounts Payable	15,330
Accrued Liabilities	<u>3,117</u>
 TOTAL LIABILITIES	 <u>18,447</u>
NET POSITION:	
Net Investment in Capital Assets	239,595
Unrestricted	<u>604,033</u>
 TOTAL NET POSITION	 <u><u>\$ 843,628</u></u>

Beaver Island Emergency Services Authority**Statement of Revenues, Expenses, and
For the Year Ended March 31, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities
Business Type Activities:					
EMS	\$ 130,044	\$ 128,279	\$ 257,968	\$ 116,717	\$ 372,920
Fire	85,409	-	100,283	438,978	453,852
Total Business Type Activities	<u>215,453</u>	<u>128,279</u>	<u>358,251</u>	<u>555,695</u>	<u>826,772</u>
General Revenues and Treansfers:					
Investment Earnings (Loss)					138
Other Revenues					<u>16,718</u>
Total General Revenues and Transfers					<u>16,856</u>
Change in Net Position					843,628
Net Position - Beginning					<u>-</u>
Net Postion - Ending					<u>843,628</u>

Beaver Island Emergency Services Authority**Statement of Net Position
Proprietary Funds
March 31, 2018**

	Enterprise Funds		
	EMS	Fire	Totals
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 274,261	\$ 263,013	\$ 537,274
Accounts Receivable	85,206	-	85,206
Capital Assets (Net of Accumulated Depreciation)	32,400	207,195	239,595
TOTAL ASSETS	391,867	470,208	862,075
LIABILITIES:			
Accounts Payable	15,330	-	15,330
Accrued Liabilities	3,117	-	3,117
TOTAL LIABILITIES	18,447	-	18,447
NET POSITION:			
Net Investment in Capital Assets	32,400	207,195	239,595
Unrestricted	341,020	263,013	604,033
TOTAL NET POSITION	\$ 373,420	\$ 470,208	\$ 843,628

Beaver Island Emergency Services Authority**Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Funds
For the Year Ended March 31, 2018**

	Enterprise Funds		
	EMS	Fire	Totals
OPERATING REVENUES:			
Charges for Services	\$ 128,279	\$ -	\$ 128,279
Other Revenue	500	16,218	16,718
Total Operating Revenues	128,779	16,218	144,997
OPERATING EXPENSES:			
Employee Wages and Benefits	70,173	14,915	85,088
Supplies	268	2,008	2,276
Repairs and Maintenance	157	11,306	11,463
Contracted Services	9,001	4,911	13,912
Air Ambulance Service	41,960	-	41,960
Insurance	-	16,691	16,691
Utilities	600	11,683	12,283
Rent	2,400	-	2,400
Fuel	945	430	1,375
Depreciation	3,600	17,253	20,853
Other Expenses	940	6,212	7,152
Total Operating Expenses	130,044	85,409	215,453
OPERATING INCOME (LOSS)	(1,265)	(69,191)	(70,456)
NON-OPERATING REVENUES (EXPENSES):			
Local Operating Grant	257,968	100,283	358,251
Interest Income	-	138	138
Total Non-operating Revenues (Expenses)	257,968	100,421	358,389
Income (Loss) Before Contributions	256,703	31,230	287,933
Capital Contributions:			
Local	116,717	438,978	555,695
CHANGE IN NET POSITION	373,420	470,208	843,628
NET POSITION, April 1	-	-	-
NET POSITION, March 31	\$ 373,420	\$ 470,208	\$ 843,628

Beaver Island Emergency Services Authority

Statement of Cash Flows Proprietary Funds For the Year Ended March 31, 2018

	Enterprise Funds		
	EMS	Fire	Totals
Cash Flows From Operating Activities:			
Cash Received from Customers or Users	\$ 43,573	\$ 16,218	\$ 59,791
Cash Payments to Employees	(67,056)	(14,915)	(81,971)
Cash Payments to Vendors	(40,941)	(53,241)	(94,182)
Net Cash Provided (Used) by Operating Activities	(64,424)	(51,938)	(116,362)
Cash Flows from Non-Capital and Related Financing Activities:			
Local Government Operating Millage	257,968	100,283	358,251
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	257,968	100,283	358,251
Cash Flows From Capital and Related Financing Activities:			
Capital Contributions from local Governments	80,717	278,796	359,513
Purchase of Property and Equipment	-	(64,266)	(64,266)
Net Cash Provided (Used) by Capital and Related Financing Activities	80,717	214,530	295,247
Cash Flows From Investing Activities:			
Interest Income	-	138	138
Net Cash Provided (Used) by Investing Activities	-	138	138
Net Increase (Decrease) in Cash	274,261	263,013	537,274
Cash and Equivalents at Beginning of Year	-	-	-
Cash and Equivalents at End of Year	\$ 274,261	\$ 263,013	\$ 537,274
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income	\$ (1,265)	\$ (69,191)	\$ (70,456)
Add Non-Cash Expenses:			
Depreciation	3,600	17,253	20,853
Changes in Assets and Liabilities:			
Decrease (Increase) in Assets:			
Receivables	(85,206)	-	(85,206)
Increase (Decrease) in Liabilities:			
Accounts Payable	15,330	-	15,330
Accrued Liabilities	3,117	-	3,117
Net Cash Provided (Used) by Operating Activities	\$ (64,424)	\$ (51,938)	\$ (116,362)

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Beaver Island Emergency Services Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Authority is classified as a business-type activity in accordance with GASB Statement #34. The following is a summary of the significant accounting policies used by the Authority:

A – Reporting Entity:

The Beaver Island Emergency Services Authority (the “Authority”) was created as a corporate instrumentality in 2002 under provisions of Act 57, Michigan Public Acts of 1988. The local governments comprising the Authority include St James Township, and Peaine Township. The Authority provides fire protection and EMS, equipment and services to these municipalities. The Authority is not included in any other governmental “reporting entity” as defined by GASB 14, as amended by GASB 39 and 61 since none of these governmental units have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

B – Basic Financial Statements:

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses, and changes in net position) report information on all of the nonfiduciary activities of the government.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The basic financial statements are reported using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as needed.

All other revenue items are considered to be available only when cash is received by the government.

Business-type activity funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers. Operating expenses for proprietary funds include the contractual services, depreciation, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. There is only one major fund, the operating fund.

D - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position:

Cash and Equivalents – Cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets – Capital assets, which include buildings and improvements, vehicles, and equipment, are reported. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation – Buildings and improvements, vehicles, and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building and Improvements	20-30 years
Equipment and Vehicles	5-15 years

Deferred Outflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Receivables and Payables - All receivables are reported at their gross value. The Authority has \$12,288 in allowance for uncollectible accounts, in the opinion of management is all receivable over 90 days are doubtful.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND EQUIVALENTS:Statutory Authority:

Public Act 152, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Though the Authority has investment policy, the Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in a local financial institution. All deposits are carried at cost.

Balance Sheet Account

Cash Items

Cash and Equivalents -
Unrestricted

\$ 537,274

Checking

\$ 537,274

\$ 537,274

\$ 537,274

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The Authority has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$297,737 of the Authority's bank balance of \$547,737 was exposed to credit risk because it was uninsured and uncollateralized.

Fair value measurement. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements required judgment and considers factors specific to each asset or liability.

NOTE 3 - CAPITAL ASSETS:

Capital Asset activity for the Authority for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-Type Activity:				
Capital assets being depreciated:				
Vehicles & Equipment Fire	-	224,448	-	224,448
Vehicles & Equipment EMS	-	36,000	-	36,000
Subtotal	-	260,448	-	260,448
Less accumulated depreciation for:				
Vehicles & Equipment Fire	-	(17,253)	-	(17,253)
Vehicles & Equipment EMS	-	(3,600)	-	(3,600)
Subtotal	-	(20,853)	-	(20,853)
Capital Assets – Net of Accumulated Depreciation	-	239,595	-	239,595
TOTAL CAPITAL ASSETS	<u>\$ -</u>	<u>\$ 239,595</u>	<u>\$ -</u>	<u>\$ 239,595</u>

NOTE 3 - CAPITAL ASSETS: (Continued)

Depreciation expense was charged to the Authority business-type activity as follows:

Fire	\$ 17,253
EMS	<u>3,600</u>
Total	<u>\$ 20,853</u>

NOTE 4 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority was able to obtain commercial general liability insurance at a cost it considered to be economically justifiable. The government pays an annual premium for its automobile, property, general liability, and Worker's Compensation insurance coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
Beaver Island Emergency Services Authority
St James, Michigan, 49782

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity and major funds of the Beaver Island Emergency Services Authority, as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Beaver Island Emergency Services Authority's basic financial statements and have issued our report thereon dated February 4, 2019.

Internal Control Over Financial Reporting

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

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements in a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in the entity's financial statements will not be prevented, or corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 2018-001

To the Board of Directors
Beaver Island Emergency Services Authority

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. 2018-002

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Beaver Island Emergency Services Authority'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Beaver Island Emergency Services Authority

Beaver Island Emergency Services Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Beaver Island Emergency Services Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

February 4, 2019

Internal Control Over Financial Reporting

Material Weakness

Material Journal Entries Proposed by Auditors

Finding 2018-001

Condition: Material journal entries in the areas of accounts receivable, capital and accounts payable were proposed by the auditors. These adjustments were detected by the Authority's internal control over financial reporting. These entries were subsequently recorded in the general ledger.

Criteria: Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in and Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, and results of operations, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal control.

Effect: Through the posting of material journal entries (that were identified by management); the auditors are effectively part of the Authority's internal controls.

Cause: Authority personnel do not maintain accounts receivable, capital asset and accounts payable records.

Recommendation: We recommend that the Authority take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Management's Response – Corrective Action Plan: The Authority has assigned a board member with the proper skills knowledge and experience to do a year end review and book the accruals and depreciation items so that the Authority is no longer reliant on the auditors to post corrective entries.

- *Contact Person(s) Responsible for Correction:*
Rick Speck, Authority Accountant

Internal Control Over Financial Reporting***Significant Deficiencies*****Segregation of Duties*****Finding 2018-002***

Criteria: The functions of authorization, recordkeeping, and custody of assets should be segregated where possible. For example, ideally the process of cash collection and depositing should be performed by an employee who is independent from check register recordkeeping and bank reconciliation. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in every unit of government in Michigan.

Condition: We found that there was improper segregation of duties over cash collection, recordkeeping of receipted cash, cash depositing, bank reconciliation, processing checks and paying invoices.

Effect: Increased risk of error and/or misappropriation of assets when such conditions are present.

Cause: The office work load and number of staff does not afford the level of segregation that needs to be in place.

Recommendation: The duties of collection, receipting, recordkeeping and reconciliation of cash should be segregated to the extent possible. Where this is not possible, offsetting controls should be put into place to compensate for a particular weakness. For example, cash collections should be done by someone other than that person who makes the bank deposits. Bank reconciliations should be performed by someone other than who makes the collections and the depositing. If this is not possible because of a lack of personnel, a second official must review the check register and the reconciliation for accurate recordkeeping.

Management's Response – Corrective Action Plan: To the extent possible, the Authority has attempted to segregate duties as described. Efforts to comply with audit recommendation will continue. Staffing and hours of operation, however, preclude strict compliance.

- *Contact Person(s) Responsible for Correction:*
Rick Speck, Authority Accountant



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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SUE A. BOWLBY, CPA, PRINCIPAL
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**MEMBER AICPA
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MEMBER MACPA

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MICHIGAN & WISCONSIN**

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board
Beaver Island Emergency Services Authority
St James, Michigan 49782

We have audited the financial statements of the business-type activity and major fund of the Beaver Island Emergency Services Authority for the year ended March 31, 2018, and have issued our report thereon dated February 4, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 13, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Beaver Island Emergency Services Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Beaver Island Emergency Services Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 13, 2018.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Beaver Island Emergency Services Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions that have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$12,288.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 21, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Policies

It was noted during our review that the Authority has not implement many important polices that are required by law and help create a strong control environment. We recommend that the Authority research and adopt the following policies to help create a stronger control environment:

- Credit Card policy
- Fraud policy
- Conflict of Interest policy
- Purchasing/Procurement policy
- Investment Policy
- Capital Asset Policy
- Electronic Fund Transfer policy
- Fund Balance Policy

We also recommend that the Authority considers research and adopting a full polies and procedures manual.

Accruals

It was noted during our review of accounts payable, account receivable, and payroll accrual that Authority officials were not recording year end accruals. We recommend that year end accruals be perform for both revenue and expenditures for a period of two months post year end to correctly report revenues/expenses to the period in which they were incurred.

Board Approval

It was noted during our review of disbursements that the Authority board does not currently review and authorize expenditure before they are expensed. We recommend that the board review all expenditure and pass a motion within their meeting to approve all expenditures before they are paid.

Insurance Coverage

It was noted during our review of insurance coverage that the authority currently holds no bonding insurance on any employee or board member. We recommend that a review be completed of all employees and board members involved in billing or cash handling and evaluate the need to bonding to help reduce related risks.

941 Reports

When attempting to tie out payroll expenditures from the 941 forms to the general ledger, we were unable to tie out expenditures. We recommend that quarterly tie out to the ledger be completed as part of the process of completing the 941 forms.

Long Outstanding Checks

While testing cash reconciliations it was noted that the Authority has a few checks that have been outstanding for greater than one year. We recommend that the Authority follow the State's Unclaimed Property manual for distributing and escheating of these funds.

Cash Reconciliations

We noted some small variances in amounts recorded on the cash reconciliations and the ledger. We recommend that all cash reconciliations be completed so that all variances are accounted for the balances recorded on the bank statement and amount recorded in the ledger.

Single Approach for Reporting Leases

The Governmental Accounting Standards Board (GASB) issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The single approach is based on the principle that leases are financing of the right to use an underlying asset.

GASB Statement No. 87, *Leases*, provides guidance for lease contracts for nonfinancial assets – including vehicles heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets.

Under the new Statement, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

A lease also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset.
- Interest expense on the lease liability
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of the lease assets recognized, and a schedule of future lease payment to be made.

Single Approach for Reporting Leases (Continued)

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend.
- Financial purchases.
- Certain regulated leases, such as between municipal airports and air carriers.

The full text of Statement 87 is available on the GASB website, www.gasb.org.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Conclusion

This report is intended solely for the information and use of the Members of the Board, management and federal awarding agencies and pass-through entities, is not intended to be, and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

February 4, 2019