

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Barry County Transit	County Barry
Fiscal Year End 9/30/2007	Opinion Date 2/15/08	Date Audit Report Submitted to State 3/21/08	

We affirm that:

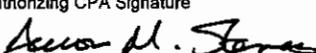
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-----|----|--|
| YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|----|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens	License Number 1101024055	

**Barry County Transit
Hastings, Michigan**

FINANCIAL STATEMENTS

September 30, 2007

Barry County Transit
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Barry County Transit
Hastings, Michigan

We have audited the accompanying financial statements of the Barry County Transit, a component unit of Barry County, as of and for the year ended September 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Barry County Transit as of September 30, 2007, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2008, on our consideration of the Barry County Transit's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Barry County Transit's basic financial statements. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Barry County Transit. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 15, 2008

East Lansing ▪ Rochester Hills ▪ St. Johns

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

The intent of the management's discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended September 30, 2007. Readers are encouraged to read this section in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

- **Assets:** The assets of the Transit did exceed its liabilities by \$1,119,803 (net assets). Of this amount, \$561,952 (unrestricted net assets) may be used to meet the Transit's ongoing obligations to citizens and creditors. The total net assets increased by \$157,268. The increase was primarily due to a property tax levy approved by the citizens of Barry County.
- **Unrestricted Net Assets:** At the end of the current fiscal year, the unrestricted net assets balance for the Transit was \$561,952, or approximately 63% of total expenses. This is up from \$315,845, which was approximately 39% of last year's total expenses.
- **Ridership Mileage** of 203,512 miles for the fiscal year was 33,086 miles more than the preceding year. Fares increased by \$7,461. The increase is attributed to the addition of new routes and the corresponding ridership increase.
- **Federal & State Funding of Capital Projects:** Barry County Transit is eligible for grants through the Michigan Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending September 30, 2007, the Transit recognized \$56,837 in funding for the purchase of a bus and new telephone system.
- **Investment Income:** The interest revenue increased to \$2,687 from \$2,188 the previous fiscal year primarily due to more favorable interest rates.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of the Transit, which include notes that explain in more detail some of the information in the financial statements.

As an Act 94 Public improvement, Barry County Transit engages in enterprise operations in various separate and distinct activities. These activities range from: 1) demand service for transportation commuters, 2) contracted tripper service for school routes, 3) inter-county regional service, primarily for medical purposes, and 4) contracted service for human service agencies.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Transit using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Transit's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Transit creditors (liabilities). It also provides the basis for evaluating the capital structure of the Transit and assessing the liquidity and financial flexibility of the Transit.

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of the Transit's operations over the past year and can be used to determine whether the Transit has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the report period.

FINANCIAL ANALYSIS OF BARRY COUNTY TRANSIT

The Statement of Net Assets and the Statement of Activities provide the information to determine how the Transit did financially during 2006-7. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining the Transit's financial health.

NET ASSETS

The Transit's Comparative Condensed Statements of Net Assets and Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year <u>2006-7</u>	Fiscal Year <u>2005-6</u>
Current Assets	\$ 584,917	\$ 345,213
Capital Assets, net	<u>557,851</u>	<u>646,690</u>
Total Assets	1,142,768	991,903
Current Liabilities	22,965	29,368
Noncurrent Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>22,965</u>	<u>29,368</u>
Net Assets		
Invested in Capital Assets	557,851	646,690
Unrestricted	<u>561,952</u>	<u>315,845</u>
Total Net Assets	<u>\$ 1,119,803</u>	<u>\$ 962,535</u>

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN FUND NET ASSETS

	Fiscal Year <u>2006-7</u>	Fiscal Year <u>2005-6</u>
Operating Revenues	\$ 175,143	\$ 150,934
Nonoperating Revenues	<u>875,686</u>	<u>726,227</u>
Total Revenues	1,050,829	877,161
Depreciation Expense	147,400	144,348
Other Operating Expenses	<u>746,161</u>	<u>659,724</u>
Total Expenses	<u>893,561</u>	<u>804,072</u>
Change in Net Assets	157,268	73,089
Beginning Net Assets	<u>962,535</u>	<u>889,446</u>
Ending Net Assets	<u>\$ 1,119,803</u>	<u>\$ 962,535</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets shows that the operating loss before intergovernmental (nonoperating) revenues was a factor in the Change in Net Assets. In addition, the depreciation expense of \$147,400 is a non-cash expense which represents the reduction in the value of the facility and buses. Due to the nature of the Transit's capital improvement plan, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through the State and Federal funding.

The Transit's operating revenues increased approximately 16% over the prior year, mainly due to a reclassification of local revenue. Operating expenses increased approximately 13%, mainly due to increased advertising and costs of fuel and salaries related to additional routes added during the year.

The Transit's nonoperating revenues increased by approximately \$149,459, or about 20% over the prior year. This increase is due primarily to a capital grant received for the purpose of purchasing a new bus and increased operating assistance received through State and Federal sources related to the increased operating costs.

CAPITAL ASSETS

The acquisition of new buses is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This allows for the Transit to maintain its fleet at an average life of seven (7) years. This funding source also allows for the Transit to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility. During the year the Transit purchased one (1) new bus through a capital grant.

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

TABLE 3
CAPITAL ASSETS

	Fiscal Year <u>2006-7</u>	Fiscal Year <u>2005-6</u>
Land improvements	\$ 28,649	\$ 28,649
Buildings and improvements	759,877	759,877
Furniture and equipment	53,283	55,784
Vehicles	1,159,622	1,107,732
Shop equipment	<u>31,377</u>	<u>31,377</u>
Subtotal	2,032,808	1,983,419
Less: Accumulated depreciation	<u>(1,474,957)</u>	<u>(1,336,729)</u>
Net property and equipment	<u>\$ 557,851</u>	<u>\$ 646,690</u>

The Transit's Five-Year Capital Plan includes bus acquisition. Federal grants have been awarded to supply, upgrade and replace maintenance equipment, as well as replace several busses. Note D to the financial statements provides additional information regarding capital assets.

DEBT ADMINISTRATION

The Transit carries no long-term debt as any improvements to the fleet or facilities have all been secured by state or federal projects. This allows the Transit to avoid any debt other than current liabilities in the normal operation of the system.

ECONOMIC FACTORS

Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. These funds have remained relatively consistent; however, fluctuations in future funding levels may be contributed to economic conditions at local, state, and federal levels.

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Transit's finances and to demonstrate the Transit's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Transportation Manager of Barry County Transit at 1216 West State Street, Hastings, Michigan 49058, (269) 948-8098.

BASIC FINANCIAL STATEMENTS

Barry County Transit

STATEMENT OF NET ASSETS

September 30, 2007

ASSETS

Current assets

Cash and cash equivalents	\$ 532,188
Accounts receivable	9,620
Due from other governmental units	<u>43,109</u>

Total current assets 584,917

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>557,851</u>
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TOTAL ASSETS 1,142,768

LIABILITIES

Current liabilities

Accounts payable	7,170
Accrued payroll	14,012
Other accrued liabilities	<u>1,783</u>

TOTAL LIABILITIES 22,965

NET ASSETS

Invested in capital assets	557,851
Unrestricted	<u>561,952</u>

TOTAL NET ASSETS \$ 1,119,803

See accompanying notes to financial statements.

Barry County Transit

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2007

OPERATING REVENUES	
Sales and charges for services	\$ 175,143
OPERATING EXPENSES	
Administrative	210,921
Operations	544,976
Maintenance	<u>137,664</u>
TOTAL OPERATING EXPENSES	<u>893,561</u>
OPERATING (LOSS)	(718,418)
NONOPERATING REVENUES	
Taxes	412,083
Intergovernmental	
Federal sources	127,768
State sources	274,067
Local sources	2,244
Interest earnings	<u>2,687</u>
TOTAL NONOPERATING REVENUES	<u>818,849</u>
NET INCOME BEFORE CAPITAL GRANT REVENUE	100,431
CAPITAL GRANT REVENUE	
Intergovernmental	
Federal sources	46,510
State sources	<u>10,327</u>
TOTAL CAPITAL GRANT REVENUE	<u>56,837</u>
CHANGE IN NET ASSETS	157,268
Net assets, beginning of year	<u>962,535</u>
Net assets, end of year	<u><u>\$ 1,119,803</u></u>

See accompanying notes to financial statements.

Barry County Transit

STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 174,954
Cash paid to employees	(370,047)
Cash paid to suppliers	<u>(382,517)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	(577,610)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes	412,083
Intergovernmental sources	
State and Federal grants	397,446
Local contributions	<u>2,244</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	811,773
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State and Federal capital assistance	51,637
Capital acquisitions	<u>(58,561)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(6,924)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,687</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	229,926
Cash and cash equivalents, beginning of year	<u>302,262</u>
Cash and cash equivalents, end of year	<u><u>\$ 532,188</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating (loss)	\$ (718,418)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	147,400
(Increase) in accounts receivable	(189)
(Decrease) in accounts payable	(1,406)
(Decrease) in accrued wages	(4,518)
(Decrease) in other accrued liabilities	<u>(479)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u><u>\$ (577,610)</u></u>

See accompanying notes to financial statements.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Barry County Transit (The Transit) is considered a component unit of Barry County, Michigan for financial accounting and reporting purposes.

The Transit receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing, and specialized services, and replace buses and other equipment. The Transit provides demand response services within Barry County. The Transit also provides special services on a contractual basis to several nonprofit and governmental agencies within the County.

The accounting policies of the Barry County Transit conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Barry County Transit. The Transit is considered a "component unit" of Barry County, Michigan. As a result, industry standards require the County to include the financial activities of the Transit in the County's Annual Financial Report. The Annual Financial Report of Barry County, Michigan is available for public inspection at the Barry County Courthouse.

2. Basis of Presentation

The accounts of the Transit are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Transit resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Transit applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement 20, the Transit has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Transit cash accounts consist of deposits with the County Treasurer. The balances in the cash accounts are available to meet current operating requirements. The County Treasurer is responsible for investing cash in excess of current requirements in various interest bearing accounts.

6. Capital Assets

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	20 years
Vehicles	5-7 years
Shop equipment	2-10 years
Furniture and equipment	10 years

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the R&E Manual and/or as approved by BPT.

The eligible depreciation of \$975 includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by BPT.

7. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

9. Contributed Services

During the year ended September 30, 2007, Barry County Transit received approximately \$45,454 in contributed services. This amount, along with the associated expenses, have not been reported in the financial statements as they are not required to be reported by generally accepted accounting principles.

10. Cost Allocations

The Barry County Transit allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

The Barry County Transit has two (2) cost allocation plans (Gasoline Purchase and Maintenance Services) where the methodology has been approved by the BPT. These cost allocation plans were adhered to in the preparation of the financial statements.

11. Explanation of Ineligible Expenses per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. Any capital money used to pay for operating expenses are subtracted out as ineligible expenses. All costs associated with earning nontransportation revenue have been subtracted out as ineligible expenses. All ineligible expenses, as required by BPT's R&E manual, have been reported.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Transit is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash and cash equivalents on the statement of net assets consist of the following:

Deposits with Barry County common cash pool account	\$ 473,802
Certificates of deposit.	<u>58,286</u>
Total	<u>\$ 532,088</u>

The Statement of Net Assets caption "Cash and Cash Equivalents" includes \$100 of imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2007, the Transit did not have any investments that would be subject to rating.

Interest rate risk

The Transit will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Transit's cash requirements.

Concentration of credit risk

The Transit will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Transit's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Transit will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Transit will do business in accordance with Board approved policy.

A portion of the cash and cash equivalents of the Barry County Transit are covered by federal deposit insurance along with other deposits of Barry County, limited to \$100,000 in total deposits by bank account type for each bank customer. Since the County maintains these funds in pooled accounts, it is not practical to determine what portion of the Barry County Transit funds is insured.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at September 30, 2007, by grant type and year are as follows:

Federal Section 5311 Operating - FY 07	\$ 37,909
Federal Section 5311 Capital - FY 06	<u>5,200</u>
Total	<u>\$ 43,109</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance <u>Oct. 1, 2006</u>	Additions	Deletions	Balance <u>Sept. 30, 2007</u>
Business-type activities:				
Land improvements	\$ 28,649	\$ -	\$ -	\$ 28,649
Buildings and improvements	759,877	-	-	759,877
Vehicles	1,107,732	51,890	-	1,159,622
Furniture and equipment	55,784	6,671	(9,172)	53,283
Shop equipment	<u>31,377</u>	<u>-</u>	<u>-</u>	<u>31,377</u>
Totals at historical cost	1,983,419	58,561	(9,172)	2,032,808
Less accumulated depreciation for:				
Land improvements	\$(28,649)	\$ -	\$ -	\$(28,649)
Buildings and improvements	(447,017)	(37,994)	-	(485,011)
Vehicles	(787,060)	(105,717)	-	(892,777)
Furniture and equipment	(42,869)	(3,603)	9,172	(37,300)
Shop equipment	<u>(31,134)</u>	<u>(86)</u>	<u>-</u>	<u>(31,220)</u>
Total accumulated depreciation	<u>(1,336,729)</u>	<u>(147,400)</u>	<u>9,172</u>	<u>(1,474,957)</u>
Net Capital Assets	<u>\$ 646,690</u>	<u>\$(88,839)</u>	<u>\$ -0-</u>	<u>\$ 557,851</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year, the Barry County Transit disposed of assets that were Federally and State funded with a historical cost of \$9,172. The total amount disposed of was fully depreciated. Depreciation expense in the amount of \$147,400 was reported for the year ended September 30, 2007.

NOTE E: COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the rate of 6 hours per month, up to 720 hours maximum accrual.

Upon termination, an employee receives payment for the balance of any unused vacation leave, which was credited on the employee's anniversary date. All unused vacation leave of current employees is lost at the end of the employee's respective anniversary year. No unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2007, will be paid from current financial resources and is not recorded as a long-term liability.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE F: PROPERTY TAX REVENUES

Barry County Transit's property tax is levied in December on the State Equalized Valuation of property located in the County of Barry as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$1.708 billion representing 50% of estimated current market value. In August 2005, the Transit's tax rate of .85 mills was approved for ten (10) years, expiring in December 2014. For the year ended September 30, 2007, Barry County Transit levied .2489 mills.

NOTE G: DEFERRED COMPENSATION PLAN

Barry County Transit offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

The Administrators are agents of the County for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Transit's financial statements.

NOTE H: RETIREMENT PLAN

The Transit is included within the County's retirement plan and the County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan, 48917, or may be reviewed at the Barry County Office Building, 220 West State Street, Hastings, Michigan, 49508.

The annual actuarial report for the County is dated each year for the period December 31 and has no separate data for the Barry County Transit. Accordingly, no separate actuarial data is included in these financial statements. The annual pension contribution for the Barry County Transit for the fiscal year ended September 30, 2007, was \$38,454.

NOTE I: RISK MANAGEMENT

The Transit, as a fund of Barry County, is protected from losses as described in the note captioned "Risk Management" within the County's Annual Financial Report.

NOTE J: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE K: RELATED PARTY TRANSACTIONS

The Transit advertises its services on a local radio station. The station is owned by a member of the Transit Board of Directors. Total advertising payments made to the radio station for the year ended September 30, 2007 were \$15,054.

OTHER SUPPLEMENTARY INFORMATION

Barry County Transit

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2007

Federal and State Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Michigan Department of Transportation								
Federal Transit - Capital Investment Grants	20.500							
Capital Grant - Section 5309 (80/20)		2002-0011/Z6	\$ 24,273	\$ 3,047	\$ 2,438	\$ 609	\$ 16,590	\$ 4,636
Capital Grant - Section 5309 (80/20)		2002-0011/Z9	48,590	48,590	38,872	9,718	-	-0-
Capital Grant - Section 5309 (80/20)		2002-0011/Z11	85,490	-0-	-	-	-	85,490
Capital Grant - Section 5309 (100/0)		2002-0011/Z13	28,554	-0-	-	-	-	28,554
Capital Grant - Section 5309 (100/0)		2007-0168/Z2	30,096	-0-	-	-	-	30,096
Formula Grants for Other Than Urbanized Areas								
Operating Assistance - Section 5311 (FY05)	20.509	2002-0011/Z8	71,747	6,164	6,164	-	62,960	2,623
Operating Assistance - Section 5311 (FY07)		2007-0168/Z1	121,604	121,604	121,604	-	-	-0-
Capital Grant - Section 5311		2002-0011/Z12	45,200	5,200	5,200	-	-	40,000
Capital Grant - Section 5311		2002-0011/Z2	112,850	-0-	-	-	80,000	32,850
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51								
Nonurban	N/A	N/A	276,260	276,260	-	276,260	-	-0-
Prior year reconciliations		N/A	N/A	(2,693)	-	(2,693)	-	-0-
Other								
Unclaimed property	N/A	N/A	N/A	500	-	500	-	-0-
TOTALS			\$ 844,664	\$ 458,672	\$ 174,278	\$ 284,394	\$ 159,550	\$ 224,249

Barry County Transit

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2007

	<u>Nonurban</u>
Labor	\$ 365,529
Payroll taxes and fringe benefits	177,809
Professional services	34,203
Materials and supplies	144,449
Utilities	16,824
Taxes and fees	905
Miscellaneous expenses	6,442
Depreciation	<u>147,400</u>
 Total expenses	 <u><u>\$ 893,561</u></u>

Barry County Transit

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2007

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 41,119
40200	Contract fares	134,024
407	Nontransportation revenue	
40799	Other nontransportation revenue	2,244
408	Local revenue	
40800	Tax levy	412,083
411	State formula and contracts	
41101	State operating assistance	276,260
41199	Other state contracts and reimbursements	(2,193)
413	Federal contracts	
41301	Section 5311	127,768
414	Other revenue	
41400	Interest income	2,687
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 993,992</u>

Barry County Transit

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2007

	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611 Vehicle Miles ⁽¹⁾	203,512	-	-	203,512

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Barry County Transit

OPERATING ASSISTANCE CALCULATION

For the Year Ended September 30, 2007

	<u>Nonurban</u>
Total expenses	\$ 893,561
Less ineligible expenses	
Regional transportation	16,273
Depreciation	146,425
Association dues	190
Operating expenses paid by capital contract	<u>3,047</u>
Total ineligible expenses per R&E manual	<u>165,935</u>
TOTAL STATE ELIGIBLE EXPENSES	<u>\$ 727,626</u>
Eligible expenses for State reimbursement	\$ 727,626
x Reimbursement percentage	<u>0.386208</u>
State operating assistance (not to exceed \$276,260)	<u>\$ 276,260</u>
Less additional Federal ineligible expenses	
Audit costs	<u>\$ 5,500</u>
Eligible expenses for Federal reimbursement	\$ 722,126
x Reimbursement percentage	<u>0.170000</u>
Federal section 5311 operating assistance (not to exceed \$121,604)	<u>\$ 121,604</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
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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

Board of Directors
Barry County Transit
Hastings, Michigan

We have audited the financial statements of the Barry County Transit as of and for the year ended September 30, 2007, and have issued our report thereon dated February 15, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Barry County Transit's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Barry County Transit's internal control. Accordingly we do not express an opinion on the effectiveness of the Barry County Transit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Criteria: Governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Transit rests with the Transit's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

2007-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP - CONTINUED

The condition noted in the preceding paragraph exists at the Barry County Transit. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management may not possess the qualifications necessary to prepare the Transit's annual financial statements and notes to the financial statements in accordance with GAAP. The Transit relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Recommendation: We recommend the Transit consider obtaining proper training for the appropriate members of the Transit's management to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the Transit's management to be able to accept responsibility for the amounts and disclosures included in the Transit's financial statements.

Corrective Action Response: Management of the Transit will continue to look for opportunities to increase our understanding of the requirements of preparing GAAP financial statements. However, at this time we believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

2007-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an 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, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: Material journal entries were proposed by the auditors to properly account for items such as capital asset activity and grants receivable. These misstatements were not detected by the Transit's internal control over financial reporting.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Transit's internal controls.

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

Corrective Action Response: Management of the Transit is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above at 2007-1 and 2007-2 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Barry County Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Transit's responses to the findings identified in our audit are described above. We did not audit the Transit's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Directors of the Barry County Transit, others within the entity, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

February 15, 2008